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We can assess the attractiveness of the student housing sector using the Porters Fiver Forces of competition analysis (depicted in Figure : Porters Five Forces analysis of the student housing market) that looks at the profitability of the industry as measured by the rate of return on capital relative to the cost of capital as determined by the five competitive forces that play upon the industry (Grant, 2010). Figure : Porters Five Forces analysis of the student housing market

## Vertical competition

New entrants: repeated headlines of the increasing returns from the sector have enticed new entrants with greater potential returns on capital than the cost of capital required to enter, which in time could reduce profitability for the sector. Threat of entry to the market is, however, curtailed by relatively high barriers to entry for pure-play operators given the difficulty in establishing significant size given the capital requirements (that are sunk costs) to set up an operational platform and achieve economies of scale on a national or international level. However, developers and funds can set up individual operating platforms for a small portfolio of sites with relative ease, but these cannot achieve scale unless further significant investment is made on back-office functions of IT, HR, and accounting to support the small independent onsite teams. For example a fund with a developer partner as a joint venture (JV) could set up a special purpose vehicle (SPV) that would employ a residence manager and a facilities manager to run their residence. Basic IT functions would simply require a Microsoft Office package, accounting could be handled centrally by the company accountant, and all other facility management functions (such as cleaning and security) could be outsourced. However, once the operation reached close to half a dozen sites (particularly if they were regionally dispersed) the SPV would need to start centralising essential functions such as accounting, HR, and marketing to ensure the brand was consistent across the portfolio and economies of scale could be exploited with a large-scale operation. This would require significant back-office investment by the fund and developer JV, and has previously been successfully achieved in the sector with the Nido portfolio. Nido was a JV between Blackstone as the fund and Generation Estates as the developer (who are now working on their second portfolio, called Pure Student Living, with the Carlyle Group). Absolute costs advantages for established firms in the sector also support the high barriers to entry as existing operators benefit from economies of learning and experience that cannot be matched by new inexperienced entrants. As the sector matures and regulation becomes more important, governmental and legal barriers will also begin to increase and deter new entrants. Brand recognition and customer loyalty has been touted by many established operators as a key factor in their success and a potential point of product differentiation, however, these claims are as of yet unsubstantiated as the scant consumer research conducted around marketing in the sector has suggested little brand recognition on the part of students. We should also note that although high entry barriers to the sector can produce alpha returns for investors and firms competing within the market, the effectiveness of these barriers vary depending upon the resources and capability of new entrants, and they may be ineffective against established consultancy firms such as GVA that are looking to diversify into the market (Grant, 2010). Degree of competitive rivalry: when looking at established competitors, the market can be described as a duopoly that is shared between UNITE and UPP (a public private partnership)[1]. However, there are a number of small to medium sized operators in the space that GVA will be competing within (which is further detailed in the Competitor Analysis section). The service is generally commoditised, despite operators attempting to differentiate themselves through the quality and design of their accommodation. As such most operators of student housing tend to adopt a cost based positioning of their services to attract customers, rather than significant product differentiation, as fixed costs of property management are high and the available economies of scale as volumes increase lead to significant cost benefits. This commoditised nature of the business coupled with increasing barriers to entry (as industry regulation has improved) has resulted in the larger players becoming well established within the sector and highly competitive. As location and rent remain the two biggest drivers of choice for students, operators establish competitive advantage through their ability to produce services at a lower cost via operational efficiencies, offering customers discounts to market rental levels, and securing developments in highly sought-after locations near popular universities. There is a risk of the market becoming overcrowded as funds and developers look to establish new student housing brands operated by SPVs. However, the white-label product offered by GVA seeks to satisfy this requirement for our target customers who can outsource the management of their portfolios under their own brands that would be adopted by our company. As the existing small to medium sized operators in the market (such as CRM and Opal) are heavily branded, this causes marketing conflicts for funds and developers using their services as their private halls of residence are advertised alongside competitors under the operator’s brand. This conflict of interests for existing pure-play student housing operators has presented an opportunity for consultancy firms operating across various sectors, such as GVA, that are happy to provide an unbranded service for their customers. Substitutes: the degree of competitive change affecting long-term profitability in the industry can be observed in the strength of substitutes to private halls of residence (particularly as the relatively low threat of new technologies requiring continuous investment have little effect on the sector). Private rented flats (for example HMOs – houses of multiple occupancy), university run halls of residence, living with parents, and student’s own residence (for example flat shares) are the main substitutes for private rented halls of residence (Figure : Student housing market share by accommodation type (HESA, 2012) shows the market share of each of these substitutes). The trend from 2009 to 2011 has been an increase of 42% for student residing in private halls, but this has begun from a low base and accounts for a total market share of only 4. 8%, and so needs to continue apace if the sector is to take a meaningful market share from its substitutes. Figure : Student housing market share by accommodation type (HESA, 2012)The greatest threats to private halls come from the ‘ other private rented’ option for students that had 29% of the market share as of 2012 and the ‘ living with parents’ option that increased by 14% over this same period, and with the rising costs of higher education there is a risk of these trends continuing (GVA, 2012). The cheaper substitutes have a depressive effect on price and profits for the private sector as domestic students in particular have a propensity to switch should prices rise to unfavourable levels. The availability of these substitutes to private rented halls affects the price students are willing to pay for the service, and affordability is becoming an important factor for the sector that will eventually constrain further rental and revenue growth.

## Horizontal competition

Customers: the bargaining power of buyers is determined by the price sensitivity and bargaining power of institutional investors (as our target customers) as well as the end-users of our service (the students). The price sensitivity of institutional investors for operational services in the student housing sector is relatively low as the service is a key factor in the successful performance of their assets and the operator’s fee is a relatively small element of the total cost of the product. There is also an element of differentiation amongst operator’s performance in their varying levels of experience and scale, which increases switching costs for investors. Finally, the competition amongst buyers remains relatively low whilst the investment market matures and so there is less sensitivity to the price of an operator’s services (Grant, 2010). Their bargaining power is also relatively low given the asymmetry of operational information and lack of transparency in the sector. However there still are a relatively small number of large institutional investors in the sector given its immaturity so they do have significant purchasing power and can vertically integrate the service of operators if they are willing to invest in setting up SPVs for their investment portfolios. The propensity of students to switch due to a relatively expensive cost of products varies between the two main customer sub-groups of domestic (who are more price sensitive) and international students (who have greater price inelasticity). For domestic students their high price sensitivity is due to the cost of accommodation forming a large proportion of their total costs of education. From their vantage point the operator’s services are relatively undifferentiated, and there is greater competition for students who wish to see rent reductions from operators. However, for wealthy international students who have greater purchasing power, they have less price sensitivity to the product. Bargaining power is low for both sets of students given the opaqueness of information in the market (particularly for international students) as price comparison websites have not been established and inclusive rents and last-minute discounts can distort the true cost of housing. Their relatively small size and scale as individual buyers of the product, and their inability to integrate the service vertically, further diminishes their buying power (Grant, 2010). Suppliers: the power of suppliers is analogous to the analysis of buyer power within the industry and is determined by the bargaining power of firms in the sector and their ability to switch suppliers. This is relatively easy given the commodity-like features of many of the industry inputs such as facilities management services, utility providers, internet service providers, and off-the-shelf booking software platforms. As such there is a relatively low risk of suppliers stealing our customers or acquiring the firm to vertically integrate the service.

## Business Model

GVA employ a ‘ Service Business Model’ where our various consultancy services are delivered to customers in the most efficient method whilst maintaining high levels of quality for each project. This is the same business model being followed for the new student housing management service as we aim to improve customer satisfaction at a firm level by offering institutional investors, who are diversifying their portfolios into this alternative sector, the ability to continue to use our services (for a detailed analysis see Error: Reference source not found). By retaining this customer segment, that would otherwise have to seek the advice or services of our competitors, we reduce business development costs of acquiring new customers and increase profitability for the firm by developing loyal and long standing relationships with our existing customer base (Ewing Marion Kauffman Foundation, 2006).

## Value Chain Analysis

Figure : Value chain of student housing management (adapted from Grant, 2010)In order to analyse the efficiency of our business model and help build cost advantage, I have broken down the activities of the new student housing management team into a Value Chain analysis (as depicted in Figure : Value chain of student housing management (adapted from Grant, 2010)). Each activity has different cost drivers acting upon their cost structures, and through this analysis we can identify the importance of each activity and its respective cost, their performance efficiencies, any cost synergies between activities, and which activities may be outsourced. I have disaggregated the team into separate activities and highlighted their relative importance to the total cost of delivering the service by dividing them into support structures, running vertically, and primary activities, running horizontally (Grant, 2010). The cost drivers are wage rates & location of services for management structure, scale of operations and capacity utilisation for operations, utility prices & volume of purchases for management delivery, size of advertising budget & brand reputation for marketing and sales, and capital equipment (including online booking system licences) and speed of work for customer service. We then identified linkages of costs such as, larger advertising budgets increase lettings and occupancy that helps reduce the relative sunk costs of capital expenditure and utilities as non-revenue generating void spaces are minimised. Consolidating utility and service purchases to generate greater discounts allows larger staffing budgets to improve operations and services. Higher quality services improve brand reputation and reduce the requirement for increased advertising. Finally, standardising management and operational structures reduces support costs of human resource management, IT support and service procurement that can be conducted nationally across the portfolio. As we were able to identify some inefficiency in the activities through this analysis it revealed three cost reduction opportunities for the business. The first was to utilise the firm’s buying power by placing our orders for utilities and services in the student housing team with the wider Property Management team at GVA to take advantage of the economies of scale that were a big cost driver for the business. The second was centralising wage costs of our back-office accounting requirements, which although usually conducted on site alongside a lettings function, were relocated to Birmingham after we procured an online booking management software package to allow remote production of property accounts. We are also exploring a potential third opportunity for outsourcing the facilities management function for the team, as this is a specialised service for the sector and our requirements are not completely fulfilled by the GVA FM team who are more focused on commercial real estate and carry large and inefficient overhead costs for our niche business (Grant, 2010).

## Customer Segments

As previously depicted in Error: Reference source not found, the market for privately built student accommodation has been growing, and is forecast to continue this trend well into 2015. Error: Reference source not found further illustrated the profitability of the sector for our target customers, institutional investors. The customers being served in the business model come from four main unrelated segments with different business goals, needs and problems (highlighted in Figure : Four main customer segments and the real estate consultancy services being provided at each stage). Figure : Four main customer segments and the real estate consultancy services being provided at each stageFunds: Investment Firms (Private Equity, Venture Capitalists, Hedge Funds & Pension Funds)GVA already work with some of the industry’s largest institutional and private equity groups, such as Carlyle (who we worked with on developing their new Pure Student Living portfolio that was delivered by the same team that created Nido[2]) and Moorfield (who are investing in the sector through their Real Estate Fund II). Their business goals suit our target market as they look for a large institutional property manager to deal with the operations of their properties to improve the performance of their funds that have 5-7 year exit plans.

## Banks & Law of Property Act (LPA) Receivers:

Most of GVA’s current student housing experience has come from instructions we have won from banks such as RBS, Lloyds, Northern Rock, and West Bromwich Building Society who have instructed our Corporate Recovery team and LPA Receivers to manage their bad debt exposure in this sector. We currently have a small portfolio of sites (circa 900beds) with a potential development pipeline of further 1, 000 beds. The business goals of this customer segment can be very short-term in nature given their intention to realise the maximum value of the asset as soon as possible for the bank, and instructions can range from 9 months to 3 years on average. Our revenue from management fees reflects the short-term nature and added risk of these instructions, and can usually be set at a premium to obtain maximum profitability for this work.

## Developers:

GVA have been in on-going dialogue with some of the most prominent developers in the sector such as Generation Estates (who we provided consultancy advice for on a new-build central London property portfolio), Alumno (who we have provided planning advice to), Bouyges (who we have worked with on their commercial portfolio), and Legacy Living. Their business goals are relatively short-term, and therefore we would secure shorter management contracts of 1-3 years in line with their exit horizons. Universities: Looking to outsource or agree Joint VenturesGVA’s public sector and higher education teams have established strong and long-term relationships with a number of universities in the UK, and we look to take advantage of these ties within the new GVA student housing team to generate work from this customer segment that are increasingly looking to the private sector. For example, we were recently invited by the University of the West of England to tender for the management of their development pipeline of residences. Their business goals are long term (5 years plus) and they are seeking reputable and reliable operational managers for their portfolios. Figure : Investment decision making process for our target customersA customer profile worksheet analysing the customer segments identified above can be found in Error: Reference source not found.

## Competitor Analysis

The limited number of specialists in this sector should enable GVA to rapidly become an established player in this growth market (Table : Identification of competitors in the management of student housing (Ewing Marion Kauffman Foundation, 2006) identifies our main competitors). The Property Management team’s main competitors of CRM and Mainstay are under pressure due to the volume of work on offer and their limited size and resource. There may be future opportunities to acquire these companies or to directly target their customers with our own management offering. Table : Identification of competitors in the management of student housing (Ewing Marion Kauffman Foundation, 2006)Direct CompetitorsIndirect CompetitorsFuture CompetitorsCRMUniteIkeaMainstayUPP (public private partnership)MaceTouchstoneCosmopolitan (housing association)SavillsDerwent LivingUniversitiesJones Lang LaSalleTiger LimeHMO landlordsCBRE

## Key Competitors

CRM Students – are the largest independent student accommodation company in the UK with circa 15, 000 beds under management, based in Oxford with a team of approximately 30 staff. They have been considered a potential acquisition target. Touchstone Student Living – property manager and consultants on approximately 1, 500 beds. Also considered an acquisition target. Derwent Living – manager of affordable housing with majority of their experience in the Midlands, who are looking to expand their Facilities Management offering. They currently manage circa 4, 000 beds on the Beach Fund for Aviva and other student housing owners. Mainstay Student Accommodation – provide property and facilities management offerings. Their business has been struggling as Coral (another competitor) have taken most of their work, and are therefore not considered to be an acquisition target. Tiger Lime – Student housing operator with the majority of their work in the Midlands and North East, and are considered a potential acquisition target. Other large real estate consultancy firms such as Savills, Jones Lange LaSalle, Knight Frank, DTZ, and DJ Deloitte all have student housing sector specialists but do not currently offer a full management service within this, and so are not yet considered direct competitors to the Student Housing Management Team at GVA. Although Unite are market leaders in the sector as owner/operators with over 40, 000 beds nationwide, they predominantly manage their own Unite Student Housing Fund and so are not considered as direct competitors as our customer bases differs. Similarly Universities Partnerships Programme (UPP) are managers of on campus university accommodation who work in partnerships with universities, and are not considered direct competitors to GVA. They are one of the biggest providers of student accommodation in the country with approximately 27, 000 beds and operate on a cost plus service basis, but again our customer bases differ. Instead we would be competing against the like of CRM, Mainstay, Touchstone, and Derwent Living. GVA’s reputation and our non-branded service offering (ideal for institutional investors with a view to an exit) provides a point of differentiation and competitive advantage when challenging these firms for market share, and we have been quickly building track record and experience in the sector.

## Value Curve Analysis

In the Value Curve analysis (shown in Figure : Value Curve of key UK student housing operators) we have benchmarked GVA’s relative performance against six main criteria for our institutional investor customers. Each operator is scored against these criteria (on a scale from 1 to 10) based on the quantitative and qualitative research done as part of this project. The competitive advantage of the three main competitors mainly comes from their experience and brand recognition, which can only be addressed as GVA builds track-record in the sector. Figure : Value Curve of key UK student housing operators

## Competitive Advantage Analysis

From the above analysis we can see that the competitive advantage held by GVA is predominantly on price (a cost advantage) that is exploited through the existing scale of the larger business. However, we also have characteristics of market differentiation with our ‘ white-labelled’ (non-branded) service that sets us apart from the competition (as set out in Table : Competitive advantage analysis of student housing management firms (Ewing Marion Kauffman Foundation, 2006)). The firm’s internal resources and capabilities, that are difficult to replicate or imitate, generate our cost advantage over the smaller specialist operators in the sector (some of which have evolved and branched-off from larger residential real estate firms). The wider business manages over 4, 000 properties nationwide providing economies of scale and greater buying power than our competitors, with access to less expensive services (such as a 10-20% discounts on utility contracts that are bought in bulk for the management portfolio). This also means the back-office operational processes established by the Property Management department are consistently replicated for the efficient production and delivery of our service. We have developed outsourcing partnerships with key partners in staff recruitment, cleaning, security, and building services that are all tendered nationally at competitive rates that cannot be matched by our smaller competitors. As the majority of the institutional investors we are targeting are existing customers to the firm through various service lines, our ability to generate new business is easier and more efficient given the existing relationships in place (Ewing Marion Kauffman Foundation, 2006). Characteristics of our service that exhibit the competitive advantage through differentiation include our white-label service that makes GVA the first non-branded operator in the sector who can cater to institutional investors seeking to develop a new fund or portfolio. Although our business is not synonymous with student housing, the institutional investor market does recognise GVA as an established trusted advisor being a top five UK consultancy firm. GVA is also the first major real estate consultancy firm to offer a full turnkey solution for investors with a unique combination of services tailored to the sector, with specialised operational management complementing the traditional services of valuation and planning advice. The complimentary services our firm can offer are invaluable for new institutional investors entering the sector, as GVA can engage with this customer segment from the outset of their decision making, providing feasibility studies, arrange lending, deliver planning and project management services for new developments, and also acquire and sell assets aligned to our client’s entry and exit strategies through our agency departments. This lifecycle of services is not currently offered by any other firm in the sector and is only viable for replication by another top consultancy firm that extends its services to student housing management, as the existing operational competitors would find it very difficult and prohibitively expensive to acquire a full spectrum of consultancy services (Ewing Marion Kauffman Foundation, 2006). Table : Competitive advantage analysis of student housing management firms (Ewing Marion Kauffman Foundation, 2006)Differentiators that Build Competitive AdvantageGVANidoCRMUniteWhat core competencies does the company possess? What qualities, characteristics or capabilities are its strengths? Full spectrum of real estate consultancy servicesSuperior service in prime locationsAffordable vanilla operational managementMarket leading knowledge and expertiseWhich products or services are perceived by the customer as superior to others in the market or industry? Valuation, Planning, Project ManagementHigh quality Customer ServiceCheap & affordable operator servicesSpecialised development & asset managementWhich target market or niche does the company serve better than anyone else? Institutional InvestorsInternational investors & students in LondonInvestors with small-medium sized portfoliosInstitutional and retail investorsDoes the company have a unique distribution channel or delivery method? Hub & spoke modelFranchise modelFranchise modelHub & spoke modelHas the company mastered organisational efficiency? Does it offer products or services at a better price, more effectively, or through a highly talented staff? YesNoYesYesHas the company developed technology or innovative products or services unique in the market? NoYesYesYesWeaknessesWhat weaknesses exist in the product or service, marketing or organisation? Other weaknesses? Lack of industry experienceLocation and scale are restrictedReaching the limits of its capacitySingle brand

## Branding & Marketing

Figure : 7 Ps of marketing analysis of GVA's new student housing service line

## Finance

There are various pricing models available for our clients, which can be segment dependent (e. g. Funds may prefer an annual management fee based upon a percentage of the operational costs of their assets, whereas an LPA Receiver with shorter term business goals may prefer us to work on an hourly time charge basis). Fixed PricingPricing can be based on list prices of pounds per bed (for example, management fees can be in the range of £150-200per bed). The quality of our value proposition features can also determine prices, for example reducing the risk for the customer by guaranteeing a cap on the operational budget may result in a higher premium being added to our management fee. Volume dependent pricing models can also be used for portfolios, which may include set-up fees for project mobilisation. Fees as a percentage of operational budgets (for example, 10% of operating costs) or revenue (for example, 3% of total revenue collected), and incentivised fees based on occupancy levels (for example, a fee of 20% of annual income once the occupancy reaches 90%) may also be preferred by some institutional customers such as Funds and Developers. As an example to the various pricing methods above, I provide a worked scenario (shown in Table : Unit level pricing example of a hypothetical 600 bed student residence illustrating the gross & net profit levels3) of the profit levels that would be anticipated from a hypothetical 600 bed development with a Fund or Developer customer and a fixed management fee of £100, 000 per annum, based upon an operational budget of £1m per annum, which equates to £167 per bed). Table : Unit level pricing example of a hypothetical 600 bed student residence illustrating the gross & net profit levels[3]Revenue per 600 bed unitInstruction Fee

## £ 100, 000

## Direct Costs

Business Development£ 4, 000

## Gross Profit

## 96%

## £ 96, 000

## Fixed Costs/Overheads

Dir/Ass/Sur/Admin£ 21, 000Facilities Manager£ 8, 000H&S Support£ 2, 000HR Support£ 5, 000Office Rental£ 5, 500Accounting£ 27, 000IT & Telecoms£ 3, 000£ 71, 500

## Net Profit

## 25%

## £ 24, 500

Dynamic PricingTo complicate matters further, pricing can also be negotiated with our customers, and will be dependent upon negotiating power and skills of the respective parties.

Finally price may be determined by the outcome of competitive bidding via an auction or tender process. Financial Growth ProjectionsOur fees have been competitive in the sector and Figure : GVA Student Housing Management’s projected growth in fees and beds under management shows a conservative estimate of the revenue potential simply on our current development pipeline, which is likely to grow significantly given the interest generated by our official service launch at the National Industry Conference in November 2012. We are targeting approximately 5, 000 beds under management by 2015. Figure : GVA Student Housing Management’s projected growth in fees and beds under managementOur financial growth projections for the new student housing management team estimate an additional fee income to the business of £1. 35m per annum by the end of the financial year 2015/16. This represents a potential 8% revenue growth opportunity for the Property Management department in that fifth year for the new team based on the department’s current turnover. What is more interesting is that we estimate the profitability advantage of student housing management work to be in the range of 10-15% over the more traditional commercial real estate management contracts that we currently manage. Top-line growth along with improvement in the firm’s EBITDA have made the student housing opportunity an exciting prospect for the firm and fits the business’ objective to target emerging growth markets in real estate.

## Business Strategy

Scenario Analysis & SWOT Analysis of GVA’s Strategic OptionsGiven that we have identified and analysed the growth opportunity within the student housing sector for GVA alongside the firm’s own resources and capabilities, we can now evaluate the different scenarios available to the Property Management department in exploiting this opportunity. To achieve this we have identified three likely business strategies the department may take, and have conducted a SWOT analysis and Growth Opportunity Matrix for each to evaluate its likely success.

## Scenario 1 – Organic Growth

The first scenario of continued organic growth represents the most likely business strategy the department would follow as it best aligns with the business goal of diversification of service lines into high growth sectors. It achieves this by utilising the existing capability and resources of the firm and realigning them towards the niche sector, which would result in a slow to moderate rate of growth for the business as the new sector team builds a track record and profile within the market that will eventually lead to further instructions from our target customers. This strategy would seek to leverage the cost advantage of the wider firm and will enable the student housing team to gain better value from GVA’s existing infrastructure over its competitors, which will allow for a cheaper product and improved operating margins for our customers. Although this strategy positions GVA as a direct competitor to established operators in the sector, the student housing team would target the emerging customer segment of institutional investors who are underprovided for as they lack viable alternatives to the heavily branded operational services currently on offer. This approach also carries relatively low levels of risk as the costs of failure are mitigated given the moderate level of investment required to pursue organic growth, which includes corporate and back-office staff recruitment as service volumes increase and marketing costs for business development to help build brand reputation in the sector for GVA. Table : SWOT analysis of Scenario 1 – Organic GrowthStrengthsThis is a low risk strategy that is well aligned to the business goal of exploiting high growth sectors, and builds upon our existing expertise in the field. WeaknessesThe rate of business growth is relatively slow and there is a risk that the firm will miss the window of opportunity in the market, as the sector may be beginning to peak. OpportunitiesIn a high growth market, GVA has the opportunity to win market share from incumbents in the sector that are experiencing difficulty (such as Opal who are currently in administration).

## Threats

The current high returns and publicity surrounding the sector are attracting new entrants that may usurp our current position and win market share before GVA can establish a meaningful presence. Table : Growth opportunity matrix of Scenario 1 - Organic Growth (Ewing Marion Kauffman Foundation, 2006)

## Evaluation

## Criterion

## Vision, Mission & Goals

1 = Not at all to 5 = AbsolutelyDoes the business align with my vision, mission and goals? 123

## 4

5

## Business Growth Readiness

Is my business ready for growth and does it have financial strength to pursue and implement this opportunity?

## Yes

No

## Market Potential

1 = Not at all to 5 = Absolutelya. In implementing this option, will my business be able to compete in the marketplace? 123

## 4

5b. Is the window of opportunity for realising sales and profits sufficient in length? 12

## 3

45c. Is the growth potential sufficient to make the option worthwhile? 123

## 4

5d. Are the risks acceptable? 1234

## 5

## Scenario 2 – Aggressive Growth through M&A

The second scenario of aggressive growth is again aligned to the business goals of GVA and takes advantage of the sizeable ‘ war chest’ of cash reserves (and relatively low leverage) the firm has amassed to exploit opportunities for consolidation and acquisition of small, niche, and/or distressed real estate consultancy firms in the market following the economic downturn. The timing of this acquisitive scenario seems to be favourable at this stage of the economic cycle as the sector has recently seen two high-profile operators (almost) fall into administration due to mis-management and poor financial structuring, so there is value to be gained from the potential mis-pricing of these distressed businesses that are forced onto the market. This business strategy provides a faster rate of growth in the student housing sector for the business, but is also high risk given the considerable upfront capital expenditure and investment required. It positions GVA in direct and more hostile competition with the established mid-market student housing operators, and could lead to aggressive pricing that would damage profitability. Brand destruction would also need to be considered as the acquisition of a well branded operator would not be conducive to the white-label product GVA would be offering as its unique selling point (USP). Table : SWOT analysis of Scenario 2 – Aggressive Growth through M&AStrengthsThis strategy provides a faster rate of business growth and development, and allows the firm to cherry-pick well established firms in the sector to immediately secure market share. WeaknessesThe high levels of investment and capital expenditure present greater risks of business failure if the new companies are not successfully integrated into GVA. OpportunitiesGVA has a good track record in acquiring smaller niche practices (such as GVA Second London Wall) and so the acquisition of a student housing specialist firm would guarantee market share and an existing client base in a profitable sector.

## Threats

If the student housing market enters a downward trend, there will be a degree of inflexibility as the newly acquired specialist team cannot be easily downsized and absorbed into the wider business. Table : Growth opportunity matrix of Scenario 2 - Aggressive Growth through M&A (Ewing Marion Kauffman Foundation, 2006)

## Evaluation

## Criterion

## Vision, Mission & Goals

1 = Not at all to 5 = AbsolutelyDoes the business align with my vision, mission and goals? 1234

## 5

## Business Growth Readiness

Is my business ready for growth and does it have financial strength to pursue and implement this opportunity?

## Yes

No

## Market Potential

1 = Not at all to 5 = Absolutelya. In implementing this option, will my business be able to compete in the marketplace? 1234

## 5

b. Is the window of opportunity for realising sales and profits sufficient in length? 1234

## 5

c. Is the growth potential sufficient to make the option worthwhile? 1234

## 5

d. Are the risks acceptable? 12

## 3

45

## Scenario 3 – Do Nothing

Finally, doing nothing is a potential business strategy GVA could adopt if the firm believes the market is currently overheated and set for a downturn. This is also an acceptable strategy if the firm’s own evaluations led it to believe that the investment required (for example, recruitment of a specialist team and acquisition of new technologies such as online booking systems) to win market share and successfully enter such a niche sector were too great to justify the returns available. The Property Management division represents 12% of the firm’s total turnover as of 2012. With financial projections for the new student housing management team estimating a turnover of £1. 35m in its fifth year from inception this only represents 8% of the department’s total current revenue and 1% for the firm. However, this argument does ignore the total revenue growth opportunity to the business that needs to be considered, as cross-selling and synergistic benefits to other departments will increase their turnover as we are able to provide a full turnkey solution for our customers targeting the sector. The strategy would maintain the status-quo of the business and would seek to defend its existing market share and position as a top five UK real estate consultancy firm. However, should a competitor consultancy firm decide to target the student housing market by expanding their operational capabilities into the sector, GVA would lose any first mover advantage. There is also a significant opportunity loss for the type of revenue growth the firm has been seeking, which could be easily exploited by leveraging their existing infrastructure, resources, and capabilities. Table : SWOT analysis of Scenario 3 – Do NothingStrengthsThere is obviously no risk of failure or sunk costs with this scenario in the new venture, and the firm continues to compete in the markets where it is already well established. WeaknessesAs we are operating in a low growth economy, by not entering high growth sectors the firm risks diminishing profit margins as inflationary pressures increase their cost of capital. OpportunitiesBy not entering the student housing sector GVA could make alternative investments in other high growth sectors such as Healthcare and Infrastructure, or alternatively invest further in its core competencies and workforce.

## Threats

Missing the opportunity of entering the sector whilst it remains relatively immature could lead to competitors taking advantage of this procrastination and establishing significant market share as the sector continues to develop and generate high returns. Table : Growth opportunity matrix of Scenario 3 - Do Nothing (Ewing Marion Kauffman Foundation, 2006)

## Evaluation

## Criterion

## Vision, Mission & Goals

1 = Not at all to 5 = AbsolutelyDoes the business align with my vision, mission and goals?

## 1

2345

## Business Growth Readiness

Is my business ready for growth and does it have financial strength to pursue and implement this opportunity?

## Yes

No

## Market Potential

1 = Not at all to 5 = Absolutelya. In implementing this option, will my business be able to compete in the marketplace?

## 1

2345b. Is the window of opportunity for realising sales and profits sufficient in length?

## 1

2345c. Is the growth potential sufficient to make the option worthwhile?

## 1

2345d. Are the risks acceptable? 1234

## 5

Upon review of the three scenarios above, we concluded that the optimum business strategy for the firm should be a mixture of scenarios 1 & 2 for organic growth supplemented by strategic and opportunistic M&A as they are both well aligned to the business goals of the wider firm and provide the best prospects for successfully exploiting the opportunity. Opportunistic M&A is a sensible strategy given the current business environment and the opportunities available as some established operators struggle to refinance their corporate debt and become acquisition targets that will help increase the pace of GVA’s development. This reduces the risk of the new student housing team missing the opportunity to establish market share due to a slower pace of organic development. The chosen strategic direction also allows for a flexible implementation that would provide the agility necessary to address changing market conditions.

## Conclusions

UK commercial real estate has been undergoing a correction since the economic downturn, following a period of unprecedented growth. The correction has led to falling rental values, capital growth and total returns from real estate and a divergence of prime and secondary markets, as well as two-staged recovery between London and the rest of the UK. As such institutional investors have looked towards alternative sectors to diversify their real estate portfolios and provide higher growth in income and returns (GVA, 2013). As a real estate consultancy firm, GVA has recognised this trend and is adjusting its organisational structure to take advantage of the popularity of alternative sectors such as energy, health, and student accommodation. By setting up sector teams to target each of these markets, the firm will be able to provide turnkey solutions for its customers to allow them access to these products and reduce their risk exposure by providing expert advice on assets with limited transparency. We have seen how student housing stock, with rent backed by indexed-linked long leases to universities or underwritten by well-funded middle-class families can produce annuity style income streams currently not available in the traditional commercial property market, and act as defensive assets in an institutional investor’s portfolio (GVA, 2013). Supported by the underlying trend of more people entering higher education to retrain during the financial crisis, this has made the sector very attractive to GVA’s target customer segment. However, following a period of sustained growth and outperformance over the wider real estate market, there is now more uncertainty regarding the future attractiveness of student housing given the political changes to the UK higher education landscape[4]. These changes could lead to a two-tier market developing, with top ranking universities benefiting more than lower ranked institutions from an increased influx of international students and the recent changes in government policy. This would lead to more intense competition for customers through service quality and price of higher education and student accommodation (GVA, 2011). Our target customer segment will adapt to these changes and we will need to re-focus our efforts on this segment of the market to ensure we improve the efficiency and profitability of our customer’s assets. Figure : Key factors affecting the UK student housing market (adapted from Jones Lang Lasalle, 2012)So what has made the student housing sector one that offers a profitable opportunity for GVA? To understand this we identified the following traits that distinguish the best markets for new venture creation: It is a growing market, supplied by specialist but inefficient businesses; it has a niche sector of student housing management that GVA can exploit given our resources and capabilities; it is relatively price inelastic for the international student market; branding is still a burgeoning facet of the market and therefore there is a low level of customer loyalty. Although it is dominated by two very large suppliers, the mid-market is far more competitive with small to medium sized companies operating in our target space (Williams, 2012). Barriers to entry in the industry are relatively high, bargaining power of suppliers and buyers are low, and although competition may be becoming fiercer and the threat of substitutes is high, the fundamental drivers of the sector remain strong. Overall my analysis has shown that the student housing market represents an attractive growth opportunity for GVA and its Property Management division. We have devised a suitable market entry strategy for the new sector team that combines organic growth with opportunistic M&A. This strategy involves continuing to target the existing institutional investor client base of the firm with our new services for the sector, to which they are seeking further exposure. The new team will focus on refining the operating platform currently under development with the procurement of a new online booking system and the recruitment of experienced sector focussed staff to the management team. This will not only help develop the service offering but also lead to the production of thought leadership research, which will help establish GVA as an expert in the sector. As market opportunities present themselves[5]the firm will also target potential M&A deals, such as the recent opportunity presented by the administration of Opal (at the time the third largest provider of private student housing in the UK). By following this market entry strategy, the new student housing team will be well positioned to achieve sustainable growth within the sector. The strategic direction that has been recommended along with the implementation plan (described in the ‘ Recommendations’ section), leverage GVA’s effective positioning within the industry’s competitive forces of competition, and are adaptable to potential change that may come about from changes in government policy and market pressures. The new student housing team is able to provide for an emergent and powerful customer segment with our USP of a non-branded service, portable upon sale that is well suited to exit strategies of institutional investors. Based on the findings of this report, I consider GVA’s new team will be able to achieve sustainable competitive advantage within the student housing operational sector within five years from the new service launch.

## Recommendations

As the UK student housing market continues its ascent with increasing returns for investors and suppliers from the sector, GVA will have to act quickly and decisively to establish market share, whilst remaining vigilant of potential headwinds to growth. We believe a blended market entry strategy of organic growth complimented by opportunistic and targeted M&A will deliver the best opportunity to capture this growth. A flexible implementation plan that can be amended to adapt to changing market conditions of this emerging sector will allow the firm’s management to regularly define and assess performance targets, and allow the team’s management to plan activities and coordinate with other service divisions to optimise customer service. The recommended implementation plan below sets out a direction for the student housing team’s operations in the short-to-medium term (1-5 years). During this time the strategy and the implementation plan should continue be reviewed regularly to ensure they remain aligned.

## Implementation

The implementation plan is based on the following mandates:

## Build profile in the student housing sector

As a new entrant and the first real estate consultancy firm to enter the sector of student housing management it is imperative that the new team builds profile and traction in the sector quickly, as to be seen as a credible alternative to established operators. To achieve this, the team should focus on arranging meetings, presentations, and attending networking events (such as industry conferences) with our target customer segment. The costs for attendance at industry events and presentations for our target customers will be covered by a business development budget that the team have secured at 8% of revenue generated in the last financial year (which can be revised throughout the year as our requirements dictate). These initiatives are essential for generating new instructions for the firm that will secure income in excess of the expenditure incurred.

## Drive sales with advertising & marketing

To improve visibility with our target customers the main GVA website will develop and optimise a new dedicated webpage for the student housing team. We will also generate tailored brochures, marketing materials, and research papers to help establish our credibility in the sector as thought leaders and trusted advisors as we educate customers on the sector and our capabilities within it. The launch events for the bi-annual research papers will be another opportunity for the student housing team to network with potential customers and win new business. The costs for these marketing initiatives and the launch events for our bi-annual research papers will be covered by the business development budget. Again, the anticipated additional income created by these initiatives will be in excess of the expenditure required to generate the new work.

## Continue to develop operational capabilities & efficiencies

It is important for the team to become compliant with the latest industry regulations and guidelines, including gaining ANUK accreditation (the industry’s accreditation network and benchmark for operational excellence) for all of its residences currently under management within the next twelve months. The costs for compliance with these regulations are asset specific, and so are funded by our customers as they are expensed to the operational budgets of the residences they pertain to. The team will target partnerships with key suppliers, such as internet service providers, to improve capabilities in this niche sector. We will also aim to improve the overall service offering with initiatives, such as offering work placements at GVA to students as incentives to book rooms in the residences we manage. There are no direct costs as such for these partnership and work placement initiatives, but there are opportunity costs that will be covered by the added benefits of improving our capabilities and performance for our customers.

## Invest in research and development to improve service delivery

The student housing team should continue to conduct focus groups with end-users at least annually to ensure the service being offered is contemporary and appropriate for the target market. Feedback from students living in our residences should also be sought regularly via questionnaires and surveys to ensure a high quality service is being consistently delivered across the portfolio. The research expenditure required to gather customer feedback and conduct focus groups will be met by the business development budget for the team. The benefits of the additional knowledge gained from these initiatives will help improve our service delivery and performance, but also establish GVA as an expert advisor in the sector as contemporary service delivery practices will be highlighted in our research papers. Research and development of new technology should also be targeted with the implementation and integration of a new online booking system that has recently been procured to not only improve customer service for end-users but also reduce service delivery costs for the firm and our customers, which will improve profitability for both parties. The costs required to reap these added benefits of technological improvements will initially come-off the sector team’s profit and loss (P&L) account, but initiatives such as the online booking system will be recharged to the assets under management with a pricing system that will allow for future revenue generation after three years.

## Focus on human resource management and recruitment

A recruitment programme will be established after the first year of the new service launch to ensure we are attracting the right calibre of experienced staff to the new team as the business grows in-line with our fee projections and performance targets. The new team members should have sector experience and will be trained by the firm to meet the marketing, customer services and research requirements of the business. The cost of recruitment will be met by the division’s central operating budget, but will only be incurred once there is a justification for the new team members from workload and revenue increases.

## Performance targets

The team will concentrate on increasing revenue through winning new operational and consultancy service contracts. In order to achieve this, fees will have to remain competitive as they initially focus on increasing revenue rather than operational profit margins in the first three years. Figure : GVA Student Housing Management’s projected growth in fees and beds under management shows the indicative targets of the implementation & growth plans for the business. Although there are direct costs for setting performance targets for the team, there should be salary incentive schemes for staff members to help drive business generation and performance improvements measured by key performance indicators (KPIs). The costs for these initiatives will borne by the division’s bottom-line operating costs, but top-line revenue growth will be secured as these targets are met to compensate for their expense.

## Revise and adapt strategy

Finally, GVA will need to review the outcomes of the market entry strategy, adapt our approach as necessary, plan for the next stage of growth, and act upon any market changes. Bi-annual or quarterly strategy meetings should be held to analyse the team’s progress towards its objective of exploiting growth opportunities in the sector and winning market share from established competitors. After reviewing the latest performance data and KPI targets, the team should identify actions to either progress along the same strategy or revise the strategy due to the emergence of new trends or market events. There are no noteworthy direct costs for re-evaluating our business strategy, but this practice will have a significant effect on the new team’s continued success and profitability in the student housing sector.

## Exit Strategy