

FUNDING THE £98M UNFUNDABLE DEAL

Confidence is often the first step in the journey to achieve a successful deal. So when debt advisers told UPP that its ambitions to acquire 2,000 student rooms were unfundable, we thought differently.

We devised a novel solution that provided senior debt as an overlay to existing forward funding arrangements. The result? We enabled UPP to add 2,500 rooms to its portfolio and helped Swansea University secure its ambition to transform a former oil refinery site into a sustainable, modern campus.



MORE IMAGINATION MORE IMPACT



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THE CHALLENGE

University Partnerships Programme (UPP), which builds and operates student campus accommodation, wanted to acquire 2,000 rooms from the developers St Modwen on Swansea University's Bay Campus in Wales. Built on a former oil refinery site at Neath Port Talbot, this £450 million development has created a sustainable, internationally acclaimed academic centre.

But UPP faced a major obstacle. A complicated lease structure and income strip arrangement used by St Modwen to fund the development meant debt advisers saw the transaction as unfundable.

We set out to devise a funding structure that would overcome these challenges – and win approval.



When other advisers were telling us the deal was impossible to fund, Addleshaw Goddard went away and devised a structure which worked and – crucially – proved to be fundable.

Richard Bienfait,
UPP Chief Financial Officer

THE IMAGINATION

We came up with a debt funding plan that used senior debt as an overlay to the existing income strip arrangement – a first in the sector. To achieve this, we reframed the lease and operating arrangements, separating out unsecured service charges and residual cashflows. We then used these assets to service £63m of new index-linked bond debt over the term of the concession.

Crucially, we avoided the need to obtain consent from the income strip funders as our structure did not affect their security. We successfully talked the debt advisers around from their initial ‘we can’t possibly do this’ to a ‘yes, we can see this would work’. And we overcame similar opposition from the rating agencies.

THE IMPACT

The £98m deal went ahead, with UPP using a newco structure to acquire the campus accommodation. A second £39m deal followed, enabling UPP to add a total of 2,500 rooms to its portfolio. This was UPP's first acquisition of a portfolio of campus accommodation – previously it had always been the developer itself. And it succeeded in adhering to its business model of funding acquisition using third party debt.

The transaction consolidated UPP's position as the UK's leading provider of on-campus accommodation. It helped Swansea University secure its ambitions to transform its estate into a research-driven, 21st century university. And it won UPP Gold Award in the ‘Best Financial Structure’ category of the 2019 Public Private Partnership Awards.

GOLD AWARD IN 2019 PUBLIC PRIVATE PARTNERSHIP AWARDS

76-ACRE UNIVERSITY CAMPUS SECURED

£63 MILLION NEW INDEX-LINKED BOND DEBT CREATED

2,500 ROOMS ADDED TO UPP'S PORTFOLIO

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