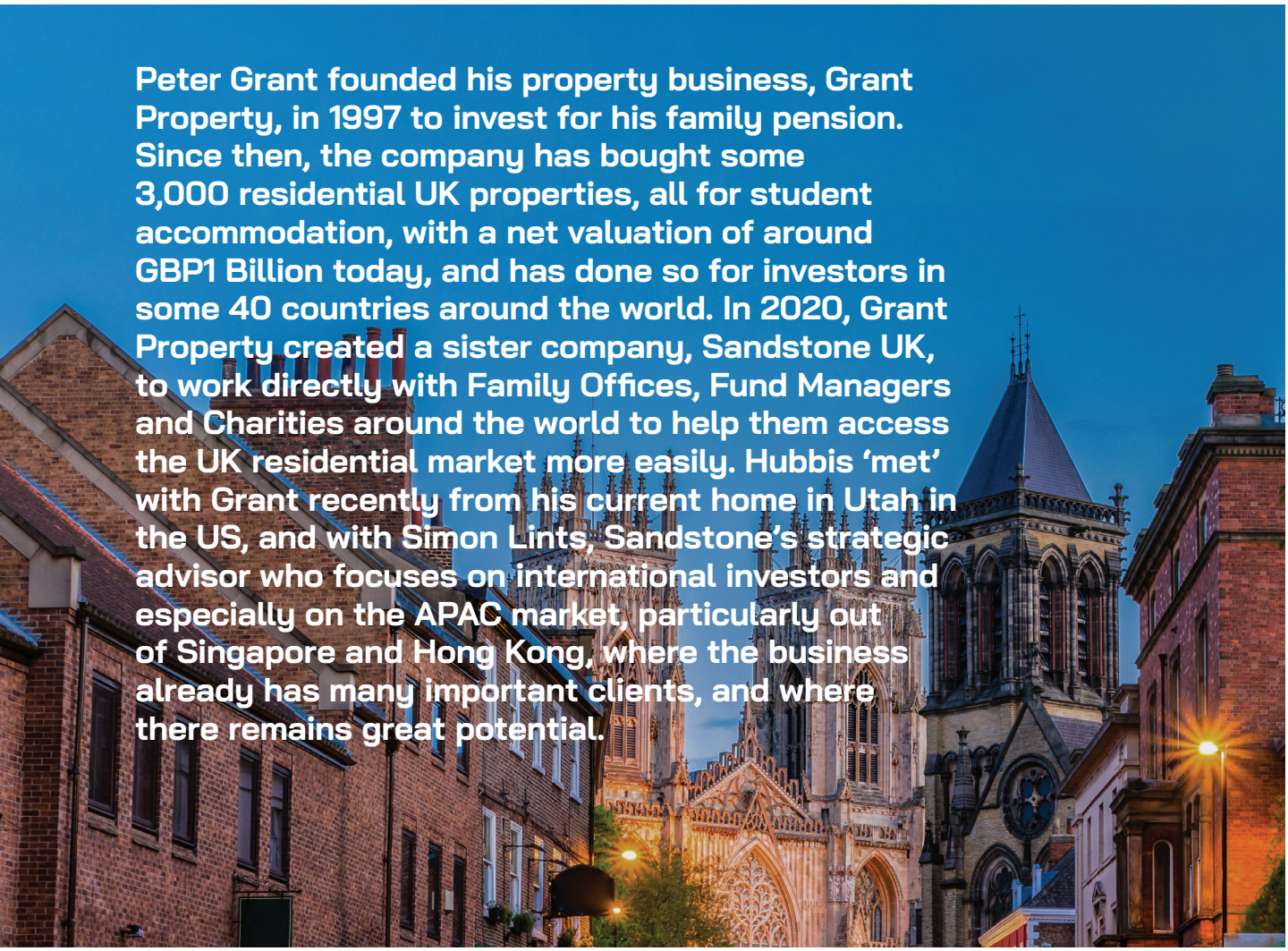
Sandstone's Compelling Proposition for Investment in the UK Residential Student Rental Market



Peter Grant founded his property business, Grant Property, in 1997 to invest for his family pension. Since then, the company has bought some 3,000 residential UK properties, all for student accommodation, with a net valuation of around GBP1 Billion today, and has done so for investors in some 40 countries around the world. In 2020, Grant Property created a sister company, Sandstone UK, to work directly with Family Offices, Fund Managers and Charities around the world to help them access the UK residential market more easily. Hubbis 'met' with Grant recently from his current home in Utah in the US, and with Simon Lints, Sandstone's strategic advisor who focuses on international investors and especially on the APAC market, particularly out of Singapore and Hong Kong, where the business already has many important clients, and where there remains great potential.

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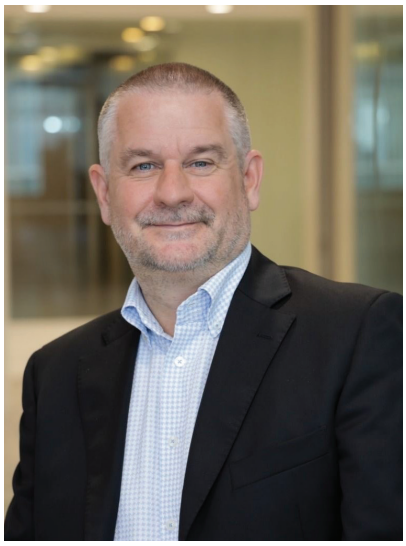

SIMON LINTS
Strategic Advisor

Sandstone has both the machinery and the roughly 23-year track record of sourcing, renovating, furnishing, renting and management. It specialises in UK residential property, which is rented to students in prime university cities in Scotland and England, namely Bristol. Birmingham, Dundee, Edinburgh, Glasgow, Liverpool, Manchester, Nottingham, Salford and Stirling.

Sandstone was formed in 2020 as the new vehicle to handle all aspects of portfolio creation and asset management, from banking and structure, to strategic management and AUM reporting. The firm works closely with Deloitte, Grant Thornton and boutique Scottish legal Dickson Minto to provide tailored, tax-efficient structuring for larger private clients around the world, typically investing an initial GBP10 million to start building a portfolio.

Sandstone's solid foundations

Sandstone was also formed to launch the Sandstone REIT in 2021, which will provide clients, both large and small, the opportunity to move assets into a listed fund providing additional benefits for clients, including realisation of capital gains and corporation tax efficiency as well diversification and liquidity.

The proven investment model that Sandstone promotes, and which the business has refined over nearly a quarter of a century, centres on buying traditional housing stock, not new builds, and the portfolio focuses on 1–5-bedroom houses in the 10 university city centres.

"Friends then asked for help to make similar investments, then friends of those friends, and the business took a course of its own from there," he reports. "Our clients love the model because they do not need to do anything at all really, just invest, and we have achieved historical returns of 28% per annum since 1997, based on 75% leverage. With low volatility as well, this is a proven track record of high returns and low risk."

APAC in the sights

Simon Lints, who is now helping Sandstone out in Asia, connecting the business to private wealth intermediaries and also to private clients directly, offers his perspectives on the demand in the APAC markets from HNW and UHNW clients.

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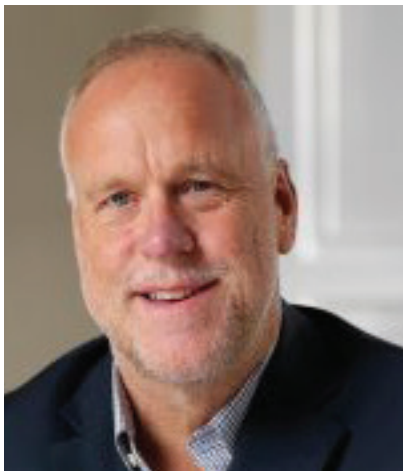
"These are actually harder to find and subject to more regulation," Grant explains, "and accordingly there are fewer landlords and investors in the space driving up rents and accelerating capital appreciation. We rent to students – they want to live in city centres usually and with a group of friends – and this sector of the UK rental market has proven itself recession-proofed as student incomes are not really linked to the economy at large."

A one-stop shop

He explains that the rationale for the business is to provide a one-stop solution for clients to invest in the UK, and that the business was born almost 25 years ago when he and his ex-wife bought a single investment property, and then quickly went on to buy other.

"The typical clients out in Asia are HNWIs and family offices," he explains, "and they tend to have strong connectivity with the UK, they might perhaps have had children and grandchildren educated in the UK, and they like the rule of law. With ultra-low interest rates and a history of capital appreciation and strong rental returns amongst students, the market is in fact still attracting a lot of attention, especially as residential prices have risen sharply in recent years, even during the pandemic rising 6% in 2020. The relatively weak pound



PETER GRANT
Sandstone

with strong potential for uplift is another appealing factor."

Lints says that so many wealthy clients and family offices in Asia are sitting on hordes of cash and seeking diversified opportunities. "Many family offices I know are also somewhat bored or disappointed with the traditional public markets and are tending to prefer asset-backed projects. The typical investment we are targeting is around GBP10 million and for those types of investors to buy into value, real assets and geographical and currency diversification is appealing."

Sized to fit

Grant explains that the properties are chosen for clients in the company's 10 selected prime university cities and towns, and the portfolio for each investor sized at an agreed scale determined by that size of investment. "We buy the properties for these clients, we renovate them appropriately and efficiently, we organise everything, we find the tenants and manage the whole process. We then have the properties professionally revalued annually, and the clients might then decide to put more funds in and we then expand their portfolio for them."

Tailored solutions

Grant explains that ownership now via Sandstone offers the most advantageous approach from a tax and regulatory perspective. "There have been quite a few regulatory changes since 2015 affecting income tax, estate duty and inheritance tax, and these considerations naturally drive the structure," he says.

He says Sandstone builds a discussion process with each of its clients centred on the scale of their investment, their preferences, their time horizons, and other factors that will help shape the portfolio for them. "We can generalise by saying that in general for this type of investments, these clients want low risk and good returns, and simplicity, and that they take a longer-term perspective on returns, often passing the portfolio on to younger generations," he reports.

Getting Personal with Peter Grant

Grant was born in Haddington in East Lothian, and grew up in Aviemore in the Highlands of Scotland, where he first developed his passion for skiing. He studied business later at Robert Gordon University in Aberdeen before completing his MBA later. He then worked for a number of large corporations such as Thomson Corporation and John Menzies PLC, and Mirror Group PLC, before setting up the Investment and Management business from his kitchen table.

He now lives in Utah in the US, where he can combine work and leisure and enjoy his passion for skiing. "The big mountains of Utah are incredible for skiing, he says, and a far cry from the rather gentler slopes of Aviemore, but I am grateful to have learned back home when I was young," he says. "I live in Park City here, which is about 20 minutes from Salt Lake City. We have six world class ski resorts within 20 to 30 minutes, so we are truly spoiled for choice. Snowbird-Alta is pretty awesome, and my favourite destination right now."

Grant's two children are 26 and 18 and live in Edinburgh. His other passions are sailing, and road and mountain biking.

"It has been a great and exciting journey to run Sandstone and highly fulfilling," he reports on closing the discussion. "With clients now from some 40 countries around the world, I keep busy liaising with them and also with my team in the UK. Asia is a strong market for us, with many important clients in Singapore and Hong Kong, so I start work at 6am here to catch a window of time in Asia and then work through but try to make sure I get a couple of hours to ski most days."

Mining down into the types of properties themselves, Grant explains that Sandstone does not venture towards commercial properties. For example, a student 'hall of residence' building is a commercial property, but Sandstone invests only in residential properties in its 10 selected university cities across the UK.

Location, location, location

"Location is naturally the key factor," he reports. "Clients who want new build and off-plan, they can do that themselves, but we stay clear of new build and prefer older, period properties that will be around for another several hundred years and that are in the best locations for students, as those have proven to be the best investments with capital uplift potential and robust rental returns."

Lints explains that the history of the business and the quality of the advisors that Sandstone work with are reassuring for investors. "We have nearly 25 years of experience accumulated in working with the right lawyers, the right tax advisors, the right bankers and other parties to effect a smooth and compliant process," he explains. "We offer clients a professional and highly experienced team and a great track record."

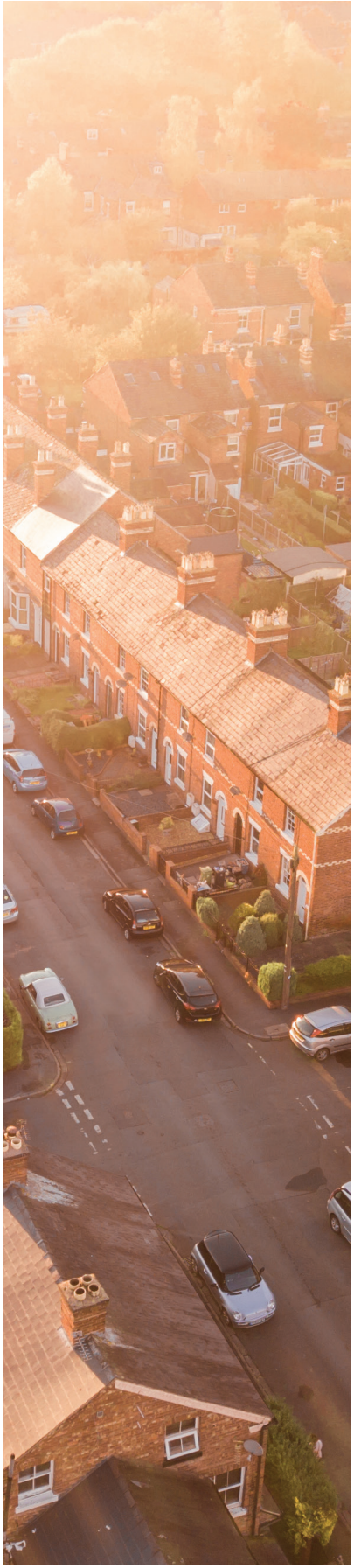
The company focuses on our selected university cities and avoids London, where the price to rent ratio is far less appealing. "In London, you might be lucky to get a gross 2% yield, whereas in the other locations we favour the yield could be 6% to 7%," Grant reports.

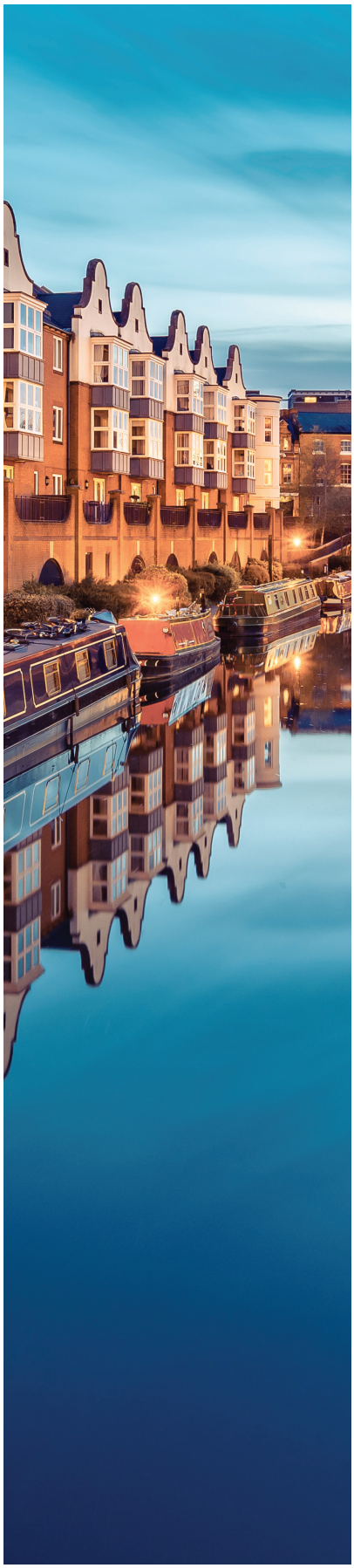
He also touches on the tax treatment, including stamp duty, income tax and IHT, or inheritance tax. "The investors tend to be very long-term and even pass the properties on as part of their estates," he explains. "We help the investors with ideas for structuring and then our expert advisors we work with at Deloittes and Grant Thornton refine and deliver those for the clients."

"The gearing is tax-efficient, and the real play is on the capital appreciation, so with gearing for example of 75%, the returns are highly attractive. Moreover, if a client wants to take cash out, they can refinance, or leverage up against higher asset prices and expand the portfolio. It really depends on the client's philosophy and what they're trying to achieve, and we will work around for whatever suits the client."

Returns, he says, are turbocharged by leverage and accordingly the firm assesses investments on a 75% LTV ratio. "The clients should then be able to run the portfolio with no ongoing tax on a running basis," Grant reports, "and most clients do that, but of course we all work within the rules to achieve these goals."

Grant adds that clients can obtain running yields of around 4% net of costs, but the capital appreciation





of roughly 7% a year is the major appeal, and then if the investors leverage the assets, then they can significantly boost the overall returns to the roughly 28% per annum he had highlighted earlier in the conversation.

Tax efficiency

"The gearing is tax-efficient," he explains, "and the real play is on the capital appreciation, so with gearing for example of 75%, the returns are highly attractive. Moreover, if a client wants to take cash out, they can refinance, or leverage up against higher asset prices and expand the portfolio. It really depends on the client's philosophy and what they're trying to achieve, and we will work around for whatever suits the client."

As to CGT, or capital gains tax, Grant reports that most clients don't actually sell the property. "Clients stay in for the long-term," he says, "as we have been achieving a 28% return per annum on average for the past 25 years, so why sell? Of course, some circumstances change and then if they have to sell, they incur the 28% CGT."

But the main tax consideration for clients is the IHT, he adds, which is 40% of any asset above a fairly low threshold of GBP 325000. "To compliantly mitigate that," he reports, "there are structures that can be employed, for example a discretionary family trust that can hold the properties and which is in effect multi-generational. And if the client is thinking shorter term, they could potentially use A and B and C class shares to help mitigate the tax going forward. It is vital to both invest wisely and we have tax experts to help you through these issues. Luckily we have managed to achieve in both of those regards."

Rewards with low risk

Grant says that based on the track record, the firm has outperformed many other asset classes over time. "As I stated, we have achieved consistent returns of above 28% per annum for approaching 25 years and with the right structures and processes in place," he enthuses. "Returns on the right investment in the markets at the right time can be dramatic, as Tesla for example, but history shows us that residential property in the UK doesn't tend to fall, and if it does, it recovers and moves to new highs within a relatively short period of time."

He expands on this train of thought. "We can talk non-stop about the rewards, the potential, the historical returns, but we must also address risks," he says. In the past nearly 25 years, we have journeyed through many ups and downs in the UK and globally, and it is a journey of learning all the time too. But what I have seen is that thus far, the UK residential market rides these waves. Even when the global financial crisis hit and funding dried up, the worst point was a 20% fall roughly in valuations and liquidity dried up, but it did not take many years before values were back about their 2007 peak. And with the types of traditional, older properties that Sandstone targets, the 2008-2009 falls were lower, and the recovery was more rapid in both valuations and in rentals."

Moreover, while London is somewhat more cyclical, he adds that regional cities such as those they target have pretty much never taken a step backwards,

even through tough times of stock market volatility and terrorism crises. "Our sharp focus on these 10 locations has helped us raise rents by an average 12% for the last three consecutive years, which is phenomenal," Grant reports.

They explain that the firm also helps with financing and the team has a strong grasp of which banks will lend and which passports are acceptable and so forth. "There are idiosyncrasies within each bank," Grant says, "and the bottom line is that we can help with that or enlist the help of someone who is a real expert on that side of things on the client's behalf."

A robust track record

They report that with investors now from 40 countries, the company has a great story to tell. Grant offers the example of a Dubai based investor who first bought into the concept through Grant Property in 2016 and that today holds 25 properties in a portfolio that has achieved a total 26.8% annual rise based on income and capital uplift and also on 75% LTV gearing. Another example is a US-based investor who first bought in 1997 and that has 17 properties that have achieved a 38% annual return, also based on a 75% LTV.

They close the discussion by commenting that the UK's long history of capital appreciation in residential property is the platform for optimism about the future, and that their tight focus on the student market and long experience, as well as their infrastructure of partners and experts all bode well for the future. "We do not do the hard sell," Grant says, "as we like to work with clients that want to do this, and who trust and enjoy the process and working with us." ■

Sandstone – a Snapshot

Sandstone is a UK-based private property investment and management company formed in 2020 as a sister company to Grant Property, which has accumulated a near 25-year history, during which time it has invested in around 3000 UK residential properties on behalf of investors that today span 40 countries around the world, including many important clients in Singapore and Hong Kong, as well as the rest of Asia.

Sandstone was itself established to provide asset management services to charities, fund managers and family offices and to expand the market and overall proposition to those types of investors to cater for a strongly-anticipated rise in demand. The founder, Peter Grant began in 1997 with an investment in a single apartment in Edinburgh, and has grown dramatically since then to now represent a net asset value of around GBP 1 Billion of 'traditional' residential properties in selected prime university cities and towns in Scotland and England, with students as the tenants. The 10 locations in which Sandstone invests are Bristol, Birmingham, Dundee, Edinburgh, Glasgow, Liverpool, Manchester, Nottingham, Salford and Stirling.

Sandstone is therefore building portfolios of high-performing traditional properties in university cities for its clients, taking care of sourcing, financing, renovations, furnishing and management on behalf of ultra-high-net-worth individuals, family offices and funds.

Sandstone produced a White Paper on their history and their market segment, which states that this sector offers high and stable returns, driven by rising demand and constrained city centre or prime location supply. Since its inception, the company has achieved an average annual return of 28%, based on 75% loan-to-value gearing.

The White Paper highlights the UK's limited supply of housing stock, history of 7% annual price rises since 1983 and points out that another 350,000 university places will be required nationwide by 2035.

The report explains that students like to live communally in pleasant, well-located houses, so the firm invests largely in Victorian and even older buildings that are extremely well built and will endure for long

into the future. While the expected lifespan of a new build is typically 30 to 50 years, the average expected lifespan of Victorian and Georgian properties is more than 200 years, underscoring their attractions as long-term investments.

Moreover, the student accommodation market is highly resilient. In fact, Sandstone's experience during the pandemic bears this out: occupancy in the portfolio has been above 94%, and rents rose by 12% in 2020.

Chris Gauld leads Sandstone and looks after Family office, Fund Manager and Institutional Investors' needs. Anna Renton is Managing Director of sister company Grant Property, her team working with clients in the UK, Europe, Middle East and Asia. Peter Grant himself founded the business in 1997 and created Sandstone Family office service in 2020 and spends a lot of time liaising with clients and setting the direction of the business. And Simon Lints is a strategic advisor to Sandstone focused on international investor and APAC growth.