RESEARCH

STUDENT HOUSING UPDATE H1 2018

OUTLOOK

The number of **18-25 year olds** in Australia is **projected to increase by 104,000 between 2016 and 2026**, underpinning future demand for Higher Education and student housing.

Chinese Higher Education enrolments in Australia stand at 124,700, trend projections show this could increase to 294,000 by 2027.

Continuing appetite for investment into the Australian PBSA sector evident by new equity investors into established groups.

Nationally, **8,290 new PBSA beds will become operational during 2018**. Sydney, Melbourne, Brisbane and Adelaide will attract 80% of the new supply. The remaining 20% has been delivered across Hobart, Geelong, Wollongong and Cairns.

Commercial operators Atira Student Living, The Student Housing Company, Unilodge (Wee Hur), Scape, Urbanest and Student One **will open 6,345 new beds during 2018**.

Transactional evidence will remain scarce with the PBSA market relatively untested. This reflects both the infancy of this asset class in Australia and the tightly held nature of this sector.

PAUL SAVITZ
Director, Research & Consulting

EXAMINING RISING DEMAND

The overwhelming majority of Australian public and private universities have expressed a desire to grow their student enrolments. Demand for Australian Higher Education remains solid despite an improvement in the global ranking of Chinese universities.

Funding freeze driving competition for students

Over the past decade universities across the developed world have been receiving less government funding. This is true of Australia where government subsidies were frozen at Australia's public universities for the next two years capped at 2017 levels. The New Zealand government has just followed suit with the May 2018 budget announcing no usual inflation component, freezing the $1billion annual funding of its eight universities.

As such, competition from institutions for mobile international students is becoming intense. Institutions are increasingly reliant on full-fee paying international students to raise revenue to support research and education programs.

However, strong investment into Chinese universities is beginning to shift the balance of power. These universities are also showing signs of assertive targets for international students. According to the 2019 QS World Rankings, 22 of China's universities are within the Top 500, whereas Australia has 25. This is an increase of 12 universities since 2010, or growth of 120% (Figure 1). Over the same period the US and Germany have lost double digit numbers from the list. Australia's universities have remained constant.

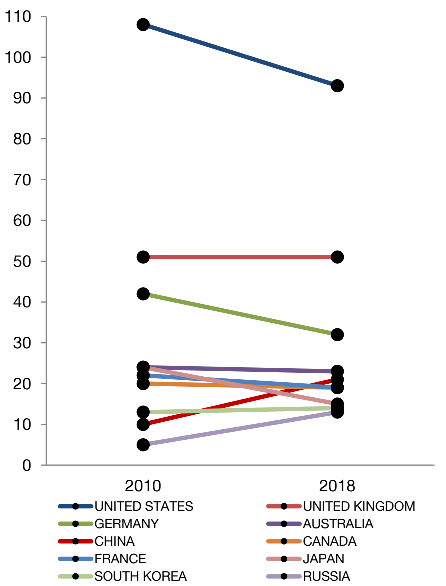
Chinese enrolments up

Chinese Higher Education enrolments in Australia stand at 124,700 as of April 2018 (Figure 2), the largest cohort of all nationalities. Growth over the same period last year has been 17%, 40% growth since 2016, 64% growth since 2015, and 77% growth since 2014. Projecting the trend at a conservative 5% per annum will see Chinese Higher Education enrolments reach 193,500 by 2027, an additional 68,800 from todays figures. Based on past growth, and a greater emphasis on international student recruitment, more realistically, the trend will grow at a rate closer to 10% per annum. This would push Chinese Higher Education enrolments in Australia closer to 294,000 by 2027, an increase of almost 170,000 enrolments.

Student mobility rising

A January 2018 British Council report, *International Student Mobility to 2027: Local Investment, Global Outcomes* has reported that the number of outbound students across the world is expected to

FIGURE 1
Universities in Top 500, by Country
Countries with at least 15 in the top 500 in 2019



Source: Knight Frank Research, QS World University Rankings 2019

DATA DASHBOARD

FIGURE 2

Chinese Higher Education Enrolments in Australia, Projections to 2027

By Absolute Number, Data as of April 2018

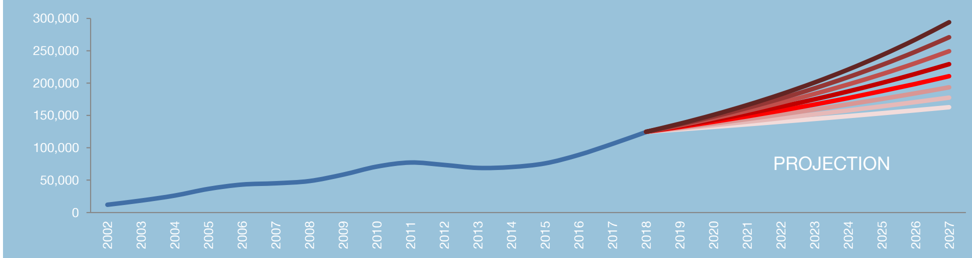


FIGURE 3

Higher Education Domestic Applications

By University Group, Annual Data, Index 100 = 2011

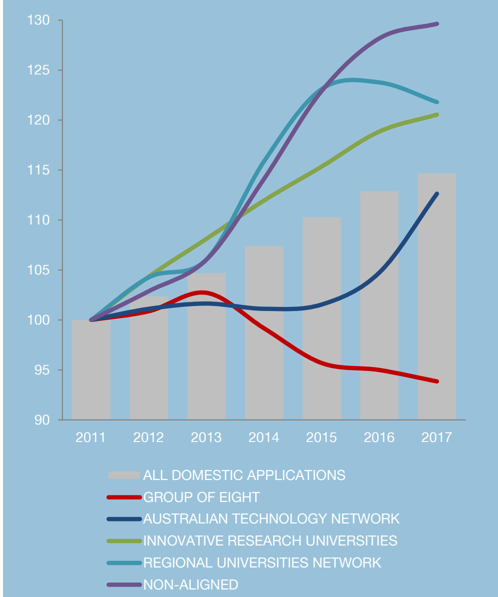


FIGURE 4

Higher Education Domestic Offer Rate

By University Group, Annual Data, % of Applications

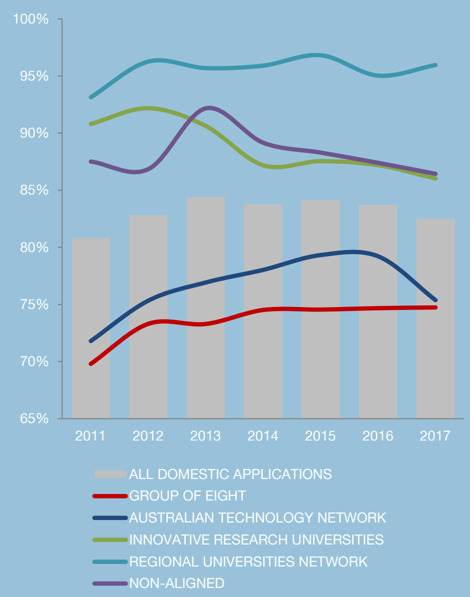


FIGURE 5

Higher Education Domestic Offer Rate

By Go8 Universities, Annual Data, % of Applications

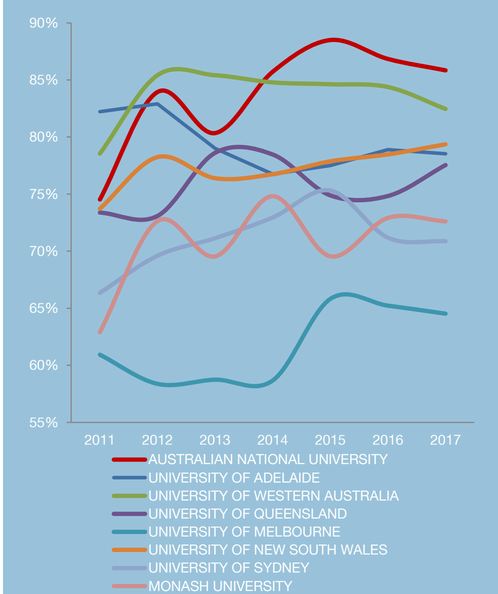
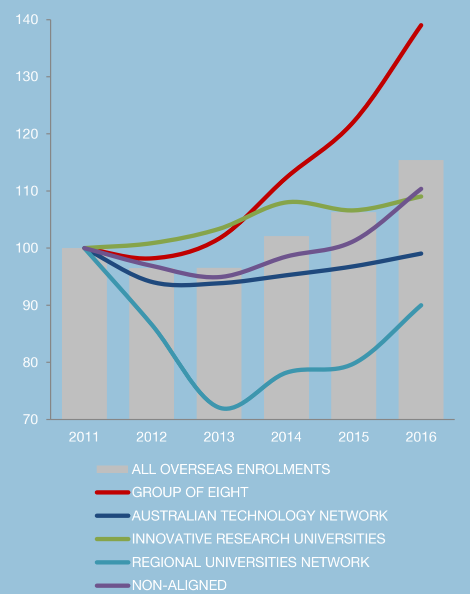


FIGURE 6

Higher Education Overseas Enrolments

By University Group, Annual Data, Index 100 = 2011



Source for all charts: Knight Frank Research, Department of Education and Training (latest available data)

increase annually by 1.7% on average between 2015 and 2027. In light of the competitive market for international students, China is forecast to generate the greatest growth in outbound students, by 245,000, to 1.05 million by 2027. India follows behind, with a forecast increase of 185,000, to reach 439,000 by 2027.

Australian institutions will likely continue to see the benefits of this Chinese outflow, regardless of rising education standards in competing markets. The quality of Australia's education plays a substantial role in attracting international students, but this is just one part of the experience. Lifestyle, safety, language, employment opportunities and climate are cited as reasons to study in Australia. Subsequent development of good quality, well located accommodation to support this growth will be required. However, if significant appreciation of the Australian dollar occurred, a sizeable curtailing of the upward growth trend could follow.

Growing participation: a demand driven system

In 2012, the Australian Government lifted previously imposed limits on the funding of bachelor-degree students at public universities. This new system called ‘demand driven’ allowed universities to respond to student demand and allowed more students to benefit from Higher Education (source; Review of the Demand Driven Funding System Report, 2014).

The ‘demand driven’ system replaced a ‘supply driven’ system, in which the government allocated student places to public universities. The report states that the new policy was immediately successful in increasing student numbers.

Since the introduction of this system, the number of domestic individuals applying for a university place increased each year by an annualised average of 2.3%. In 2017 there were 346,800 individual applications, an increase of 1.6% compared to 2016 (Figure 3). There were 286,216 individuals who received offers, an increase of 0.1% on 2016, an offer rate of 82.5% (Figure 4). This data shows a moderate growth in applications and offers in 2017 as the demand driven system matures. The domestic offer rate is recognised as an appropriate measure to asses how universities are reacting to student demand.

By university type, Group of Eight (Go8) universities have the lowest domestic offer rate, hovering around 75% for the past four years (Figure 4). Deeper analysis highlights significant offer rate variation between the Go8 – University of Melbourne at around 65%, whereas ANU is close to 85%.

However, unlike the Go8, and to a degree universities across the Australian Technology Network, smaller and lower ranked universities have limited means to diversify their revenue sources, as well as a lower capacity to recruit international students, hence a higher domestic offer rate, compared to other university groups.

Overseas students targeted by the Go8

Equivalent data is not available for overseas applications, but the lower acceptance rate for domestic Go8 students appears to enable the acceptance of a greater proportion of full-fee paying international students. Overseas enrolments have grown 39% since 2011 across the Go8 universities, compared with total overseas enrolment growth of 15% over the equivalent period (Figure 6). The Go8 grouping accounts for five of the top six universities by overseas intake, and around 40% of all overseas enrolments, up from around 30% in 2011.

Future opportunity: a two pronged investment market

Aside from continued investment into city centre direct let developments—a primary focus of which will be on the most supply constrained markets of Melbourne and Sydney—over the next few years we believe that upgrading university accommodation to attract and retain students will be key moving forward.

As such, many of the largest investment opportunities will likely be in partnership with more regional, or metro universities to redevelop older on-campus stock which is no longer fit for purpose and traditionally targeted towards domestic students. Recent examples of public-private partnerships include the Living + Learning Partners consortium investment in the University of Wollongong's on-campus student accommodation facilities and ANU's agreement with investment management firm H.R.L Morrison and Co over nine student residences.

Establishing long-term partnerships for the operation, development and management of a university's student accommodation with the private sector can enhance the capacity for a university to invest in research and teaching facilities.

Depending on specific investment and development strategies, positioning will be essential, whether it's a university partnership or targeting overseas students in the direct let market. For investors and developers matching those universities which have a clear vision and strong growth strategies, or universities with growing and high overseas student intakes, will be more important and sustainable than targeting a particular city, town or precinct where market dynamics are not as strong but sites are available.

INVESTMENT AND DEVELOPMENT REVIEW

Mixed signals as developers adapt to demand dynamics

Since the turn of the new year conflicting messages have emerged from the student housing sector. The start of 2018 began with Mirvac purchasing a site, with approval for a 36 storey PBSA tower, from Wee Hur in Brisbane. The CBD site will now be converted into a mixed use commercial led scheme, highlighting decreased confidence in the Brisbane student housing market.

Following the Brisbane sale listed Singaporean developer Wee Hur paid $35 million for a vacant Melbourne commercial building and $52 million for a freehold residential building in Sydney. Both will be redeveloped into high-rise student accommodation, reinforcing the confidence in both the Melbourne and Sydney market. Wee Hur have an aspiration to achieve a total portfolio value of more than $1 billion across 5,000 beds, and are focused on acquiring sites in Perth, as well as, additional facilities in Sydney, Adelaide and Melbourne.

Alongside Wee Hur, fund manager Cedar Pacific announced an intention to raise up to $600 million to invest in new student accommodation projects across Australia's capital cities.

Likewise, Scape has followed suit with another round of capital raising, closing out a new $500 million fund. Mimicking other European institutional investment into Scape Australia, Allianz Real Estate and WPI (a Luxembourg based fund owned by a German institutional investor), alongside a Middle Eastern sovereign wealth fund, have completed the latest round of capital raising. The capital raise grows Scape's Australian platform to more than $1 billion in equity commitments. This reportedly allows Scape to drive a project pipeline with a gross development value in excess of $3 billion, delivering 10,000+ student beds.

This optimism is in contrast to events taking place at Blue Sky Alternative Investments, which operates the Atria Student Living brand under a JV with Goldman Sachs. As reported by the Atira Student Living business, of the four facilities that are accepting tenants, the ramp-up in occupancy at these facilities has been more gradual than expected, as of March 31 2018. This occupancy pressure is said to be due to an increased supply of PBSA in locations that they operate (Brisbane and Adelaide).

In addition, asset revaluations (in May 2018) of the entire Blue Sky student accommodation portfolio has resulted in one fund being written down by 35%. The value of other funds (in which the assets sit) are said to be down by 17%, 16%, 11% and 2% with two student housing funds revalued upwards by 6% and 4%. Since the revaluation announcement, significant changes to the PBSA portfolio have occurred, including the termination of a Sydney project, the deferral of a Melbourne scheme and the construction delay at a Perth site.

Notwithstanding current competition, two new student housing brands were introduced to the market during 2018. Journal Student Living (backed by South African Investor Redefine) and Gaw Capital's "Campus" brand both launched marketing campaigns for their respective Melbourne and Perth sites.

RESEARCH & CONSULTING
Paul Savitz
Director, Research & Consulting
+61 2 9036 6811
Paul.Savitz@au.knightfrank.com

Ben Burston
Partner, Head of Research & Consulting
+61 2 9036 6756
Ben.Burston@au.knightfrank.com

CAPITAL MARKETS
Ben Schubert
Joint Head of Institutional Sales, Australia
+61 2 9036 6870
Ben.Schubert@au.knightfrank.com

Tim Holtsbaum
Director, Site Sales, Australia
+61 2 9036 6615
Tim.Holtsbaum@au.knightfrank.com

Emily Fell
Associate Director, Asia Pacific
+65 6429 3591
Emily.Fell@asia.knightfrank.com

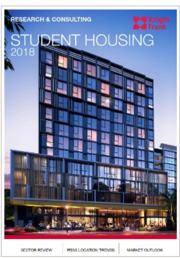
James Pullan
Partner, Head of Student Property UK
+44 20 7861 5422
James.Pullan@knightfrank.com

VALUATION & ADVISORY
Tim Miles
Partner, New South Wales
+61 2 9036 6701
Tim.Miles@au.knightfrank.com

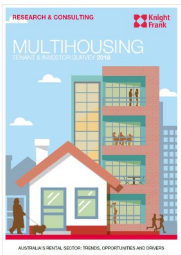
The report, International Student Mobility to 2027: Local Investment, Global Outcomes, forecast tertiary enrolment and outbound student mobility across 56 countries. These predictions were based on projections for tertiary-aged populations and household wealth, developed in partnership with Oxford Economics and largely based on data from the United Nations, across the countries, which are home to 80% of the world's tertiary-aged population.

2017 Higher Education student enrolment data to be released around September or later at this stage.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



Australian Student Housing Report 2018



Multihousing Report 2018

Seniors Living Insight 2017

The Wealth Report 2018

Knight Frank Research Reports are available at **KnightFrank.com.au/Research**

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.