

AUSTRALIAN PURPOSE BUILT STUDENT ACCOMMODATION

SUPPLY, DEMAND, NEEDS, AND THE INVESTMENT OPPORTUNITY IN THE SECTOR APRIL 2016

HIGHLIGHTS

The PBSA market in Australia is relatively immature compared to competing markets. Over the next five years (2016-2020) 29,311 PBSA beds have the potential to become operational, an increase of 36% on current stock levels (81,939)

Undersupply of PBSA bedspaces is currently estimated at 290,525 nationally, with the potential for that figure to rise closer to 404,700 by the end of 2020 if full time student (domestic and international) growth and student mobility trends continue

Encouraging greater institutional understanding of the PBSA sector, educating prospective investors of the sector's potential, and a need for state and local governments to review their PBSA planning settings and strategies will help the sector grow

KEY FINDINGS

The rising number of students in Australia, in particular international students, is having a direct impact on the demand for quality and affordable student accommodation.

There are **230,400** (2014 academic year) **full time Higher Education international students** studying in Australia, but **only 81,939 PBSA bedspaces**.

Growing knowledge of the sector's undersupply statistics and the PBSA market fundamentals is beginning to attract both domestic and global investor interest.

There are a number of key barriers to entry in the Australian market, including the availability of suitable land and the viability of student accommodation development against other land uses, which is restricting the five year development pipeline to a possible 29,311 bedspaces.

Of growing importance in the student accommodation sector is that of effective branding and marketing, whereby students are viewed as highly sophisticated consumers. As a result, **a lack of good quality and affordable PBSA bedspaces could be detrimental to a university's reputation and ability to recruit the best students.**



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EXECUTIVE SUMMARY

The rising number of students in Australia, in particular international students, is having a direct impact on the demand for quality and affordable purpose built student accommodation (PBSA). As investment, interest, knowledge and globalisation of the Australian PBSA sector intensifies, the level of proposed development has similarly increased. However, while development and the demand for PBSA in Australia is rising, the Australian student accommodation market remains immature in comparison to competing markets, providing opportunity for investment.

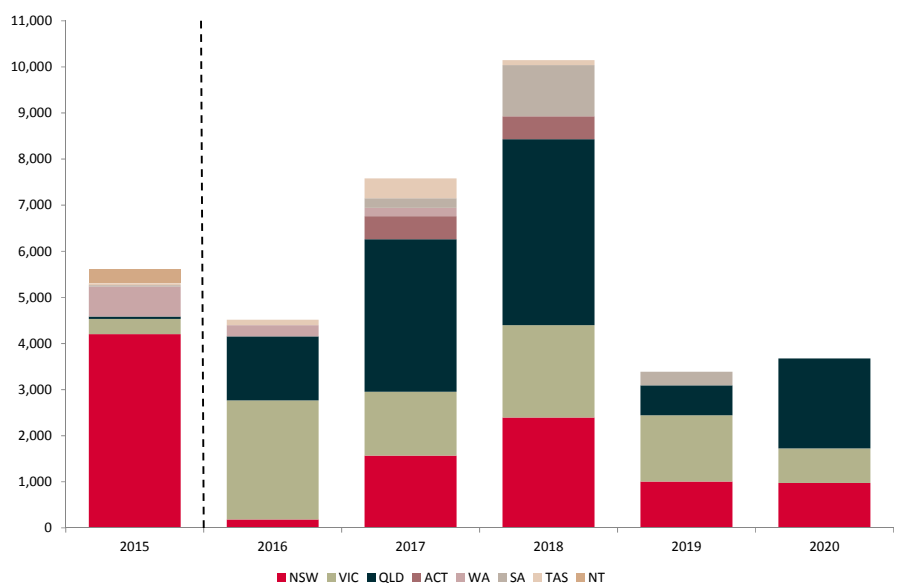
The below quote attributed to the Knight Frank UK Student Property team in 2006 shows the major similarities between the Australian purpose built student accommodation (PBSA) market in 2016 and the UK market in 2006.

“The student accommodation market is an expanding and lucrative investment sector that has attracted considerable press and investor interest but is still yet to have its potential fully explored.¹”

The Australian PBSA market is expanding, investment in the sector is growing, column inches are mounting but knowledge, development and investment is still relatively immature. Disparately, the UK PBSA market has now matured into a sector where the transaction of assets and land has averaged close to £2 billion annually over the past five years, with investment activity reaching record levels, of over £5 billion in 2015.

As with all property classes, location, amenity and quality of product developed are vital in determining the overall performance of a student

FIGURE 1
Future PBSA Bedspaces by State and Year
Estimated completion year, as at April 2016



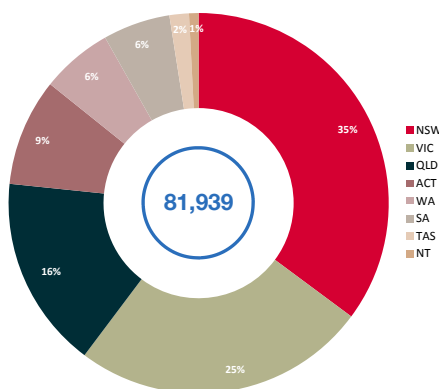
Source: Knight Frank Research (*assumes all schemes are built)

accommodation scheme. These three fundamentals are particularly pertinent to the Australian student accommodation sector as it is currently undergoing a process of expansion and maturation, highlighted by the delivery of 5,600 PBSA beds to the market in 2015.

SUPPLY GROWING

Knight Frank analysis highlights 29,311 PBSA bedspaces which have the potential to become operational across Australia over the next five year period (2016-2020, see Figure 1), an increase of 36% to current stock levels (81,939, see Figure 2). Nevertheless this level of possible future supply still does not significantly impact the current supply/demand imbalance in key cities.

FIGURE 2
Current PBSA Bedspaces by State
As at end of December 2015



Source: Knight Frank Research

“Historically within Australia the growth in students, both domestic and international, enrolled has outweighed the growth in PBSA - either halls provided by a University/Institution or by commercial providers.”

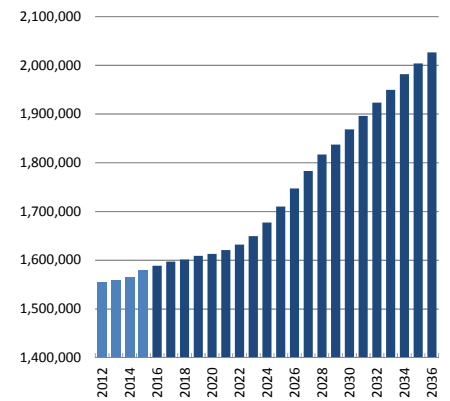
However, with significant student accommodation development either planned or underway throughout Australia, compared with historic development levels, an inferior scheme will quickly prove to be an unviable asset.

Within the student accommodation sector, occupier demand (students) is less cyclical, less volatile and less uncertain than it is within other property asset classes. Traditional commercial property sectors are reliant upon demand derived from the market and potential occupiers at any one time - a measure which has historically proved relatively volatile, particularly within emerging property sectors.

DEMAND RISING

In contrast, the student accommodation sector benefits from a more stable, tangible and certain demand source – the Australian Higher Education student population. This is a demand source which grew 5.1%, to reach 972,336 in 2014 (full time Higher Education students), and one which is expected to grow further as Universities increase their intake in line with a growing young population (see Figure 4). The increase in 18-22 year olds, projected at an

FIGURE 4
Population Projections, Australia
18-22 age group



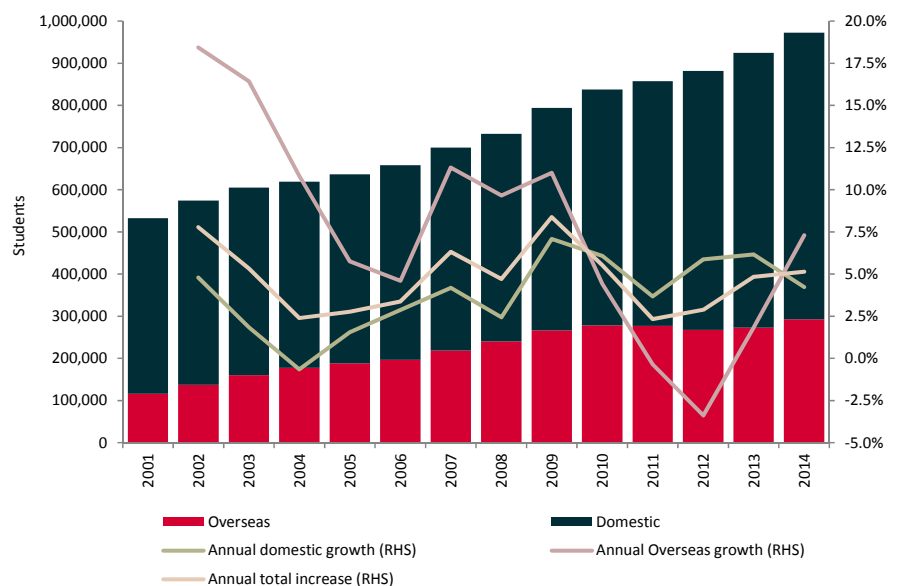
Source: Knight Frank Research, ABS

average growth of 0.6% per annum over the next 10 years, or 83,415 in absolute number terms will underwrite significant expansion in Australian Higher Education provision.

Moreover, the number of full time international students enrolled at Australian Higher Education Institutions revealed positive growth (7.3%) for the second consecutive year (see Figure 3).

Accurate and reliable data describing the size of the student population enables historical and future student

FIGURE 3
Growth in Full Time Higher Education Students
Latest available data



Source: Knight Frank Research, Department of Education and Training

accommodation demand trends to be mapped. The existence of a defined 'academic year' creates certainty as new and returning students generally require accommodation at a set time each year for a certain period of weeks. Hence, **making the risk profile of the sector arguably lower than it is for other commercial property sectors.**

INVESTMENT POTENTIAL

The risk profile is further reduced when understanding the level of structural undersupply of student bedspaces across Australia. Comparing like for like calculations with the UK, **Australia has 11.1 full time (FT) Higher Education (HE) students per PBSA bedspace (as at the end of 2015); the UK has a ratio of 3.3. This figure rises to 13.4, 12.4 and 14.4 in Melbourne, Sydney and Brisbane respectively.**

This compares with 3.5 and 3.0 in London and Birmingham respectively. Birmingham has only 59,000 FT HE students, but more PBSA bedspaces (19,926) than any Australian town or city, and a further 5,029 PBSA bedspaces in the pipeline (see Table 1 on Page 6).

Furthermore, this report applies additional statistical analysis to the above figures; to help investors, developers and Institutions understand the "true supply gap" in each city, i.e. discounting those students who reside in their family residence and do not require accommodation.

Applying the University Colleges Australia 2014 Census report student mobility calculations to 2014 Higher Education student number data highlights an undersupply of 290,525 student bedspaces across Australia.

In simplistic terms there are 290,525 Higher Education students studying in Australia without access to a PBSA bedspace, and thus renting accommodation privately, often apartments or share houses close to City centres and transport nodes, consequently occupying much needed key worker and low-cost housing in the major cities across Australia. The majority of the student accommodation undersupply is across Melbourne (86,686), Sydney (74,763), Brisbane (38,689) and Perth (23,554) - see Figure 5.

"Taking future supply estimates into consideration, there still remains a significant shortfall in the supply of PBSA bedspaces across Australia."

Assuming all PBSA bedspaces in the planning pipeline are developed by the end of 2020, Knight Frank have projected out undersupply of PBSA bedspaces to the end of 2020. This calculation is based on a projection of the past five year average growth rates, taking into consideration growth in full time total Higher Education students, mobile students as defined by the UCA 2014 Census report and overseas students.

UNDERSUPPLY

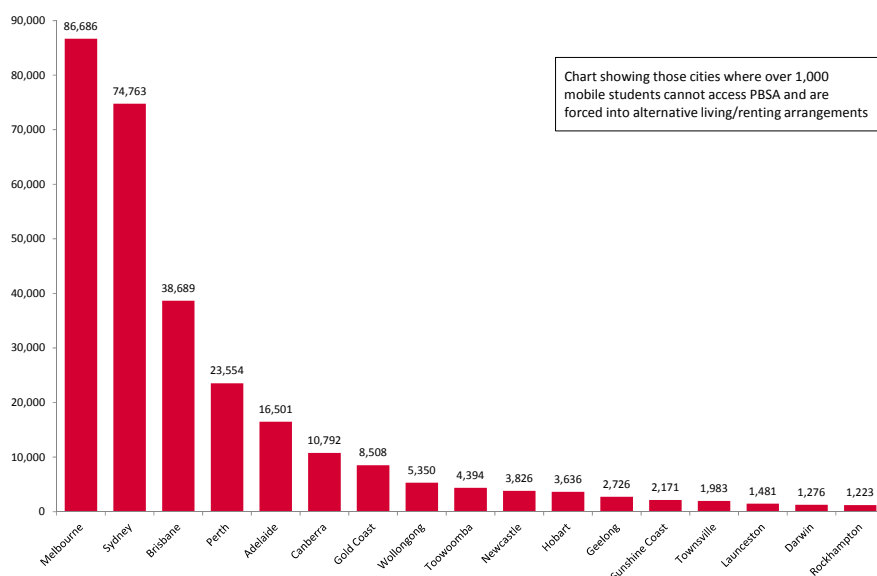
By the end of 2020, Knight Frank projects this national undersupply figure to increase by 39%² to 404,700, as the rate of full time Higher Education student growth continues to outpace the development of PBSA bedspaces, and the number of mobile students, as a proportion of the total, increases on trend.

As an example, undersupply by the end of 2020 in...

- Melbourne is projected to increase from 86,686 to 118,960 bedspaces
- Sydney is projected to increase from 74,763 to 99,275 bedspaces
- Brisbane is projected to increase from 38,689 to 42,460 bedspaces

The positive projected growth in total student and mobile student numbers, diminutive supply levels and the barriers to development for Institutions, is consequently attracting a number of commercial and private investors keen to diversify their commercial property portfolios. Coupled with this, is the fact that rents are generally reviewed on an annual basis, unlike other commercial property asset classes.

FIGURE 5
True Supply Gap by City
Number of full time (FT) Higher Education (HE) students without access to a PBSA bedspace, Dec 2015



Source: Knight Frank Research, Department of Education and Training, Tertiary Balance

PLANNING POLICY

Brisbane City Council is the first major Council to begin to address the structural undersupply of PBSA bedspaces across its City and understands the importance of being able to provide high quality accommodation across all price points.

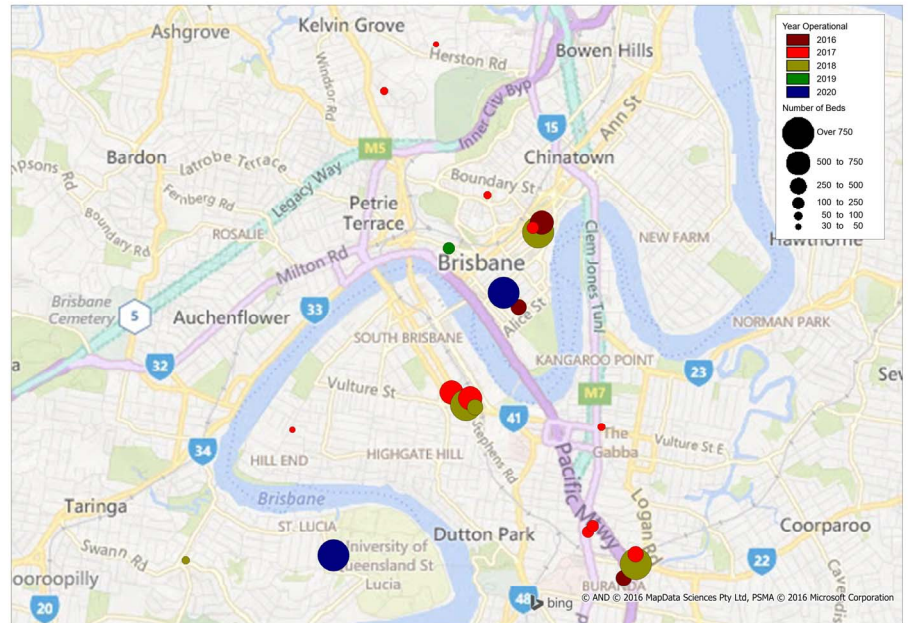
The City Council has adapted planning regulations to allow for reduced developer contributions on sites which fall within specified parameters. This incentive has made projects viable, where previously they would not have been financially feasible. This change in planning policy has allowed for a potential doubling of PBSA bedspaces across Brisbane, with a large concentration across the City Centre (See Map 1).

The planning environment across Victoria (Melbourne) and NSW (Sydney) is more structured, and seemingly more inflexible, than across Brisbane, meaning this kind of planning shift is less likely to occur. It is recommended that further research should be authored by those within the Town Planning profession on this subject, to discuss ways to enable current planning policy to shift in favour of the development of critically needed student accommodation, be it adapting the affordable housing or key worker

MAP 1

Brisbane Future Supply of PBSA

Map showing schemes which have applied for Development Approval



Source: Knight Frank Research

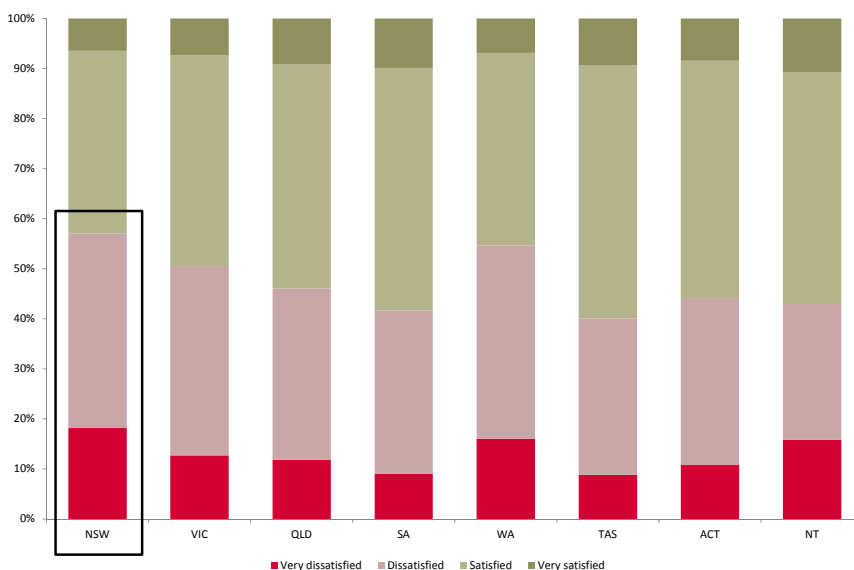
planning terms, or rezoning parts of the City, or enhancing incentives. **This point highlights the need for local solutions to the issue of undersupply, to minimise an over reliance on less secure private rented sector tenancies,** to which students compete with young professionals, couples and families to secure residential accommodation close to campus, transport and amenity.

AFFORDABILITY

The development of new, high quality and affordable PBSA is an active concern for Institutions across Melbourne and Sydney. These are the two largest student markets in Australia and are also markets where alternative residential accommodation has seen high rental cost increases over recent years due to low vacancy levels. **As a result of limited supply of quality and affordable PBSA, Australian Institutions are reliant on the private rented residential market to which they have no control. Going forward this may impact on their ability to recruit the best students, by negatively impacting their positions and reputations in world education rankings.**

Cost of accommodation is already a major concern to students, fiercely expressed through the 2014 International Student Survey - only 49% of all students were satisfied with the cost of accommodation, falling to 40% across NSW (see Figure 6). **Although the 2014 International Student Survey returned relatively positive results across all states in relation to access to accommodation, satisfaction levels are likely to fall if student numbers**

FIGURE 6
Cost of Accommodation, by State - % Satisfied
 Percentage of students surveyed, 2014 International Student Survey



Source: Knight Frank Research, Australian Government - Department of Education and Training (data ordered by number of respondents)

continue to increase on trend, outpacing the development of suitable accommodation. This is even more pertinent across NSW, the State which recorded the highest dissatisfaction (18%) levels with regard to access to suitable accommodation.

Australian policy makers have the chance to learn from other markets, which are competing for the same mobile students. Using the UK as an example of a PBSA market which has seen significant expansion and transformation highlights the opportunity and importance of the PBSA sector to both the education community and the economy.

Understanding the need for a proportion of well-located and appropriately designed PBSA in a town or city could enhance the reputation of Australia as a place to study and bring further benefits to local and wider economies.

The UK has significantly more PBSA bedspaces than Australia, with London home to more PBSA bedspaces than Australia’s capital cities combined (see Table 1). Notwithstanding that level of supply, London has a greater PBSA development pipeline than Melbourne, Sydney, Perth, Adelaide and Canberra combined.

“Nationally about 40% of PBSA beds are occupied by international students, with a higher proportion of international students occupying commercially owned and operated beds (55%) than in other types of sites (32%).”

University Colleges Australia National Census of University Student Accommodation Providers 2014 report

This is evident even in an environment where London land values are continually reaching new peak levels. Student accommodation as a separate planning use class has assisted the delivery of bedspaces by maintaining the viability of developments in the UK. Whereas in Australia, return on investment (ROI) is limited by the competing interests for land in central (and certain fringe) areas of Australia’s biggest cities, due to more restrictive use classes surrounding student accommodation.

SIGNIFICANCE & OPPORTUNITY

The importance of the PBSA sector is evident in the UK whereby the UK Government recently (February 2015) consulted³ on whether Section 106 affordable housing contributions⁴ were discouraging student accommodation development. The key concern was that some local planning authorities (LPAs) were charging Section 106 affordable housing contributions for student accommodation schemes and that this was adversely affecting the development pipeline in the student sector.

The UK Government sees dedicated student accommodation as important in helping to improve capacity in the low-cost housing sector as well as providing affordable housing for students. The consultation paper

“In terms of the commercial operators/ owners/developers UniLodge, Campus Living Villages and Urbanest are currently the main players in Australia, although a number of other commercial entrants are now looking for scale, such as GSA, Iglu, The Pad, Living + Learning Partners, Student One, Blue Sky Private Real Estate and Scape Student Living.”

highlights the fact that LPAs are rewarded for enabling residential accommodation (including student accommodation) through the New Homes Bonus. This is a grant paid to LPAs by Government for increasing the total number of dwellings in their area.

The Consultation response ended with the point that the *“Government remains committed to ensuring that the planning system is proactive in providing the housing the country needs and ensuring that the need for all types of housing, including affordable housing and student accommodation, are met.*

TABLE 1

Student Bedspace Headroom Comparisons

	Total FT HE Students	FT HE Students living in PBSA	Headroom - % unable to access PBSA	Potential Pipeline
London	263,125	75,615	71.3%	15,522
Birmingham	59,010	19,926	66.3%	5,029
Melbourne	230,910	17,273	92.5%	7,302
Sydney	216,335	17,430	91.9%	4,475
Brisbane	106,571	7,399	93.1%	9,293
Perth	81,273	4,773	94.1%	245
Adelaide	63,108	4,688	92.6%	1,615

Source: Knight Frank Research

The Government will now undertake further discussions with relevant parties to further support dedicated student accommodation”.

The above consultation points to an acknowledgement that PBSA is welcomed by the UK Government. Across Australia a significant number of bedspaces will be required to support the projected growth of students from 2015 to 2020 and beyond. Supplementary to growing student numbers, the University experience landscape is changing across Australia.

Historically, Higher Education students were not mobile (i.e. remained in their home City or State for Higher Education), but according to the UCA 2014 Census report “there was an increase of 47% in the number of mobile higher education students (domestic and international combined) over the period 2004 through to 2013, this equates to a 4.4% compound annual growth rate over the same period.”

If this increasing mobility trend continues, given the Higher Education market is becoming more global as educational policy settings continue to encourage international student participation, the provision of new PBSA will become even more necessary.

In order to reach the pipeline targets outlined, leadership will be required by a range of stakeholders. There is a need to encourage a greater understanding of the Australian PBSA sector, to highlight the benefits of providing accommodation and the possible issues which arise from an undersupply of purpose built accommodation. Educating prospective investors of the sector’s potential, alongside a need for State and Local governments to review their PBSA planning settings and strategies will help the sector grow.

For developers and investors of PBSA thorough local market research will be of critical importance, due to the size and scale of new build proposals entering the planning pipeline throughout Australia, and the likelihood of change in the sector over the short to medium term.

Like the UK market, growth in the sector was partly helped by the trend towards vertical living in landmark trophy buildings. Australia is already moving towards matching the UK PBSA skyline, with fourteen 20+ storey PBSA developments in the pipeline, which would deliver around 7,765 bedspaces (see Figure 7). Going forward, location, product and even institutional alignment will be important for those planning new developments or investing in the sector.

Definitions

- Purpose Built Student Accommodation (PBSA)** –The commercial PBSA market has given students who cannot access Institutionally/University owned Halls of Residence choice. PBSA options often offer higher quality accommodation, rents inclusive of bills, varying options on tenancy lengths, a branded product, enhanced internet connectivity, professional management and security, compared with the private residential rental market. Preferred development sites are often within easy access to one or more Universities, Institutions or private colleges, with good access to transport and amenities.
- Added value opportunities are also observed in providing a highly specified product and providing amenities such as common rooms and entertainment areas to drive rental value. However, there are a number of key barriers to entry in the Australian market, including the availability of suitable land and the viability of student accommodation development against other land uses.
- Higher Education** - The Australian higher education system comprises both public and private universities, Australian branches of international universities, and other non self-accrediting higher education institutions.
- Student Mobility** - Assumes, and is defined by the UCA 2014 Census report as a full time domestic Higher Education student whose permanent home address postcode centroid is more than 60km, as the crow flies, from their campus postcode centroid, in addition to all domestic interstates even if they are within the 60km rule and all overseas students. This calculation assumes no domestic students who live within 60km of their Institution requires accommodation; however there will ultimately be a proportion of these students who will require a bedspace for various reasons.

FIGURE 7

Tallest Proposed PBSA Towers

Schemes which have applied for Development Approval

Address	La Trobe Street, Melbourne		George Street, Brisbane	
Developer	Blue Sky Private Real Estate		Nielson Properties	
Floors	47		59	
Type	100% PBSA		Mixed Use	
Student Beds	793		216	

Artist's Impression



COMMERCIAL BRIEFING

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This report has taken extracts from an original report which was prepared for the Australian Trade Commission (Austrade) in December 2015. The report findings are based on assumptions given and is correct to our knowledge as of April 2016.

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Footnotes

¹ 2006 Knight Frank UK Student Property Research Insight

² This growth rate assumes all PBSA bedspaces in the planning pipeline are developed by 2020. This calculation is based on projecting out historic past five year average growth rates, taking into consideration growth in both full time Higher Education domestic and overseas students, in addition to the proportion of domestic mobile students as defined by the UCA 2014 Census report.

³ <https://www.gov.uk/government/consultations/section-106-planning-obligations-speeding-up-negotiations>

⁴ Optional legally binding financial contributions, not onsite provision, set by local planning authorities at the time of awarding planning permission

For the purposes of this report we have concentrated on the Higher Education (HE) sector. The reasons for this is to make comparisons with other competing markets relevant; in addition the Higher Education sector makes up the largest proportion (42%) of International Students in Australia. Higher Education students are typically enrolled on longer full time courses compared with other education sectors and students tend to be in the age bracket which PBSA accommodation providers target.

The report did not include student number data on the VET (Vocational education and training) sector for the reason that domestic VET students (who account for 96.8% of all VET students) tend to study within close proximity to their permanent home address. However, the VET sector, is worth addressing in a future separate study and should provide thought for those developing or offering commercial PBSA bedspaces as it is the second largest education sector for incoming international students, with approximately 149,785 total enrolments in 2014, according to data sourced from the Department of Education and Training.

Cover Image—Iglu Brisbane City, opened April 2016

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