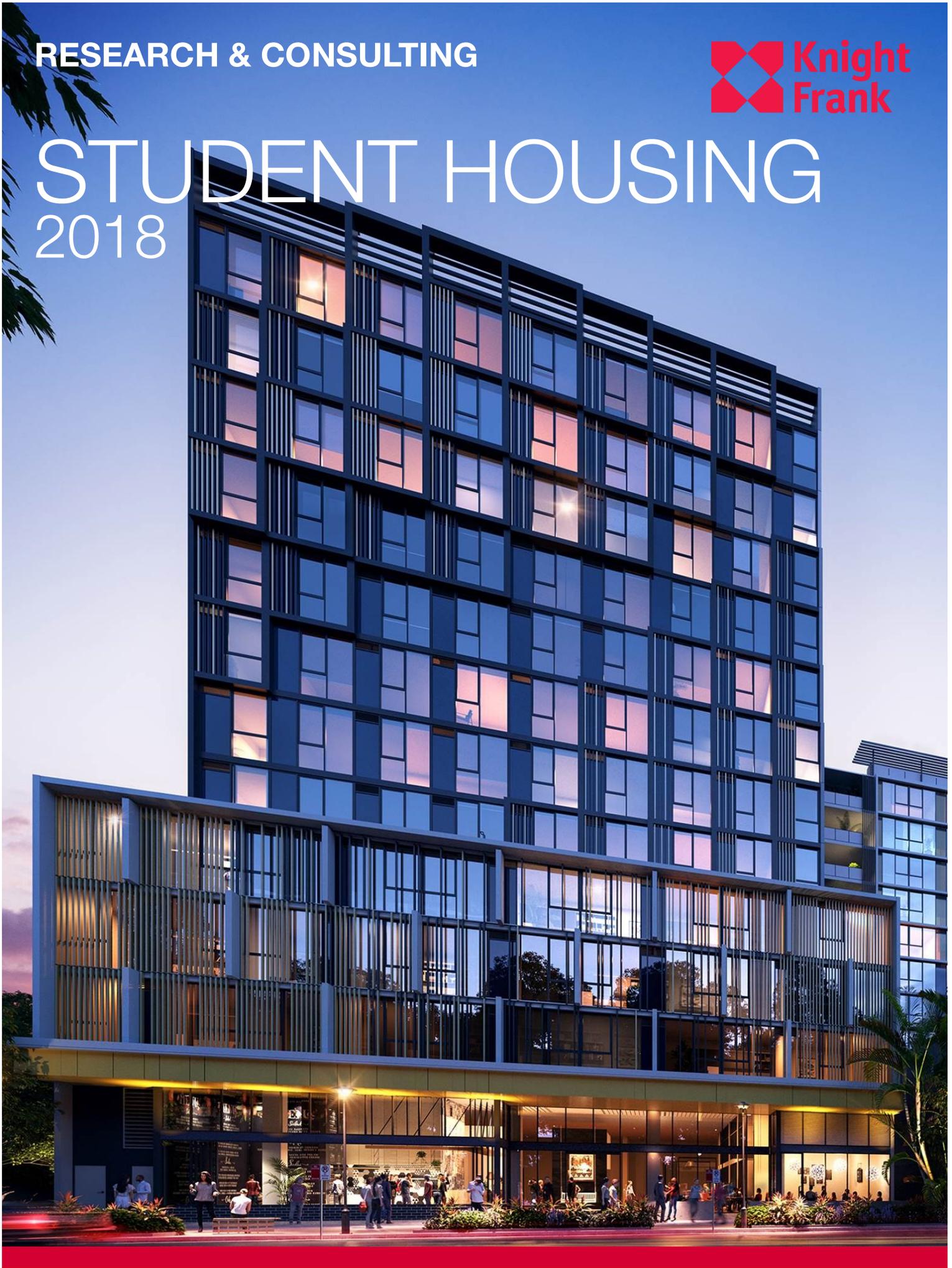


RESEARCH & CONSULTING



STUDENT HOUSING 2018



SECTOR REVIEW

PBSA LOCATION TRENDS

MARKET OUTLOOK

KEY FINDINGS

The rising number of students in Australia, in particular international students, is having a direct positive impact on National and State economies.

Although Australian universities have diversified their sources of income, on average almost **20% of their operating revenue is derived from international student fees** (2015, DET) rising to 30% at some institutions.

There are **337,117** (2016 academic year) **full time Higher Education international students** studying in Australia, but **93,890 PBSA bedspaces as at the end of 2017**. This equates to a **theoretical international student to bed ratio of 3.6:1**, highlighting the additional demand for quality and affordable student accommodation.

Key **barriers to entry** into the Australian market remain the **availability of suitable land** and the **viability** of student housing development against other land uses, alongside the lack of **operational expertise**.

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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Director, Research & Consulting

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EMERGING SECOND WAVE

A small number of investors and operators have already entered the student accommodation market and are successfully building portfolios, whilst student enrolments continue to soar. In light of uncertainty in competing markets globally, and through the encouragement from all levels of government to increase international student participation, there are signs that the second wave of investors and operators are exploring ways of entering the increasingly competitive Australian student accommodation market.

Education Expands

The importance of education as a revenue source for the Federal Government was highlighted further by the June 2017 International Trade in Goods and Services data release. The figures emphasise the rapid growth and importance to the economy of education as a service export, specifically accounted for by onshore international students, which reached \$28 billion for the 2016/17 financial year, rising 16% over the same period the year prior. Education is now confirmed as one of Australia's top leading service exports.

Following the transitioning of State economies towards services, all levels of government are actively pursuing policies to increase investment into the quality and accessibility of their institutions, together with developing their overseas recruitment strategies. Alongside this, an institution's accommodation offering is high on the agenda, with the acceptance that growing student enrolments requires additional investment into suitable accommodation, in line with the quantity and quality of provision in competing global markets.

Analysis for Austrade by Deloitte Access Economics for their *Australian International Education 2025* roadmap estimates that onshore international students may be capable of increasing from 500,000 students today to 720,000 by 2025 – a compounding annual growth of 3.8%. The report goes on to suggest that in a high market-share scenario, these numbers could almost double to nearly 990,000 by 2025. This accounts for all education sectors and types of attendance. For the Higher Education (HE) sector, Australia was home to 1,039,763 full time (FT) students, as at the 2016 academic year. This is an increase of 3.9% from 2015, and 182,386 more FT students than in 2011.

Importantly for all concerned, 2016 was the fourth consecutive year that the number of FT overseas students enrolled at Australian HE institutions revealed positive growth (9.2%). This cohort totalled 337,117, or 32.4% of all FT students in Australia, increasing at an annualised rate of 5.9% since 2012. Continued growth is attracting a second wave of investors, operators and developers, both domestic and global, at a time when significant political changes are being experienced in competing markets.

FIGURE 1

International Students Contribution to the Australian Economy

Data to financial year (includes expenditure such as tuition fees and living expenses)

"The services economy, and in particular education-related travel services, is becoming increasingly important to the Federal Government by helping to fill the void left by the mining boom."

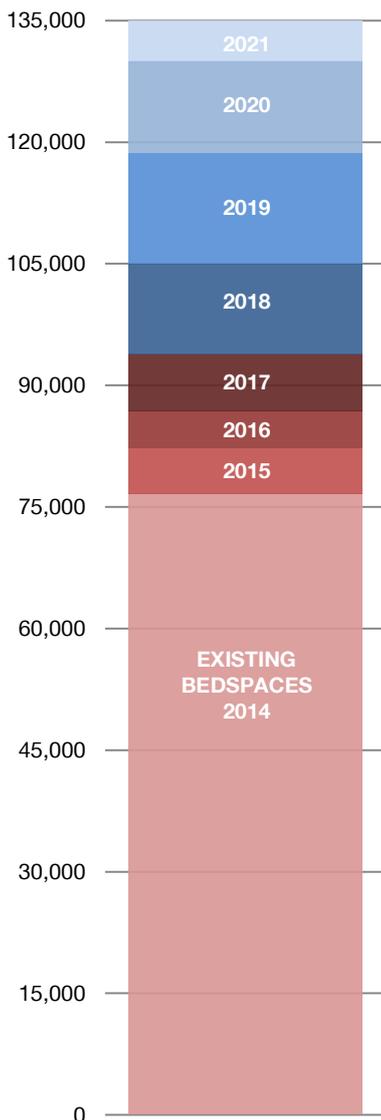


Source: Knight Frank Research, ABS

DATA DASHBOARD

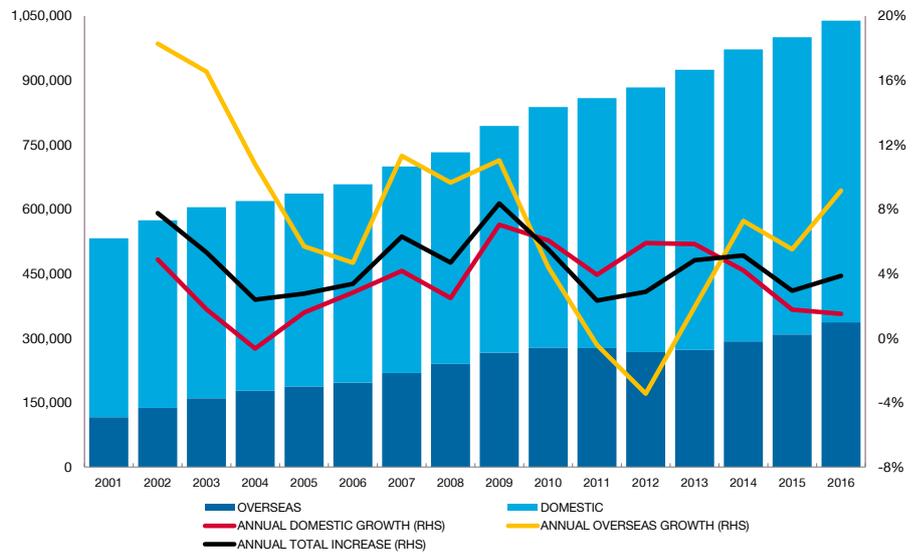
Key trends shaping the demand and development of the purpose built student accommodation industry.

FIGURE 2
Existing, Recent and Potential Supply of PBSA Bedspaces
By year of delivery



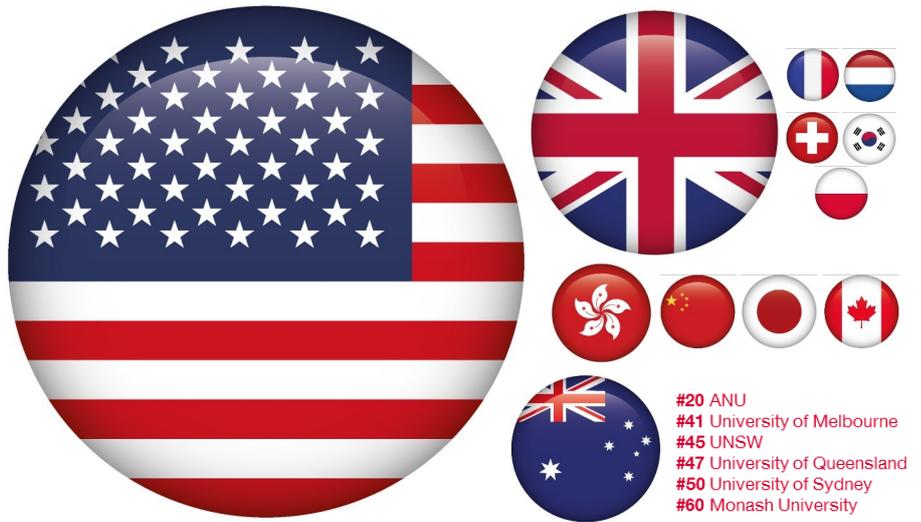
Source: Knight Frank Research (*assumes all schemes are built as of September 2017)

FIGURE 3
Growth in Full Time Higher Education Student Enrolments in Australia



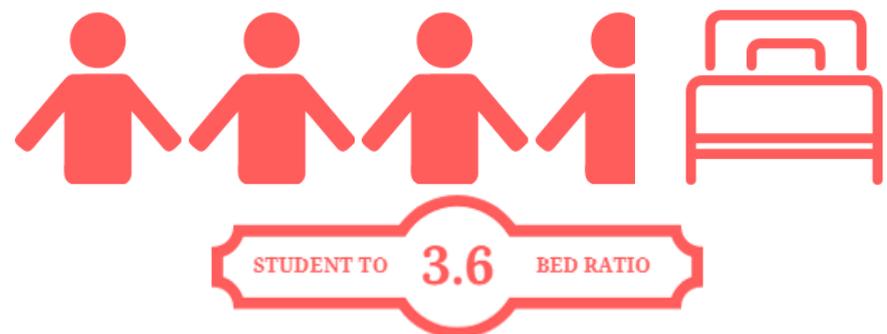
Source: Knight Frank Research, Department of Education and Training

FIGURE 4
World University Rankings by Country – Top 60 by Number



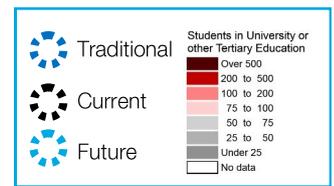
Source: Knight Frank Research, QS World University Rankings 2018 (size of flag equals number of institutions)

FIGURE 5
International Student to Bed Ratio
Growth in international students has outweighed growth in the delivery of new PBSA



Source: Knight Frank Research, Department of Education and Training (*The above analysis does not account for the requirement of domestic students who require PBSA or the propensity of International students to take-up PBSA)

LOCATION LOCATION LOCATION: TRENDSETTING



The 2016 Census has given a clearer indication of the locational preferences of university or tertiary students. Analysing the latest release against past data sets highlights how locational preferences have changed, and adding in future supply allows us to identify the next student housing hotspots.

The locational preference of where students live is heavily influenced by the location of university campuses, traditional residential collages, accessible private accommodation, transport links and newly developed student housing. With over 47,850 potential new student bedspaces in the five year pipeline, concentrated (65%) across the three eastern capital cities, new areas of studentification will emerge.

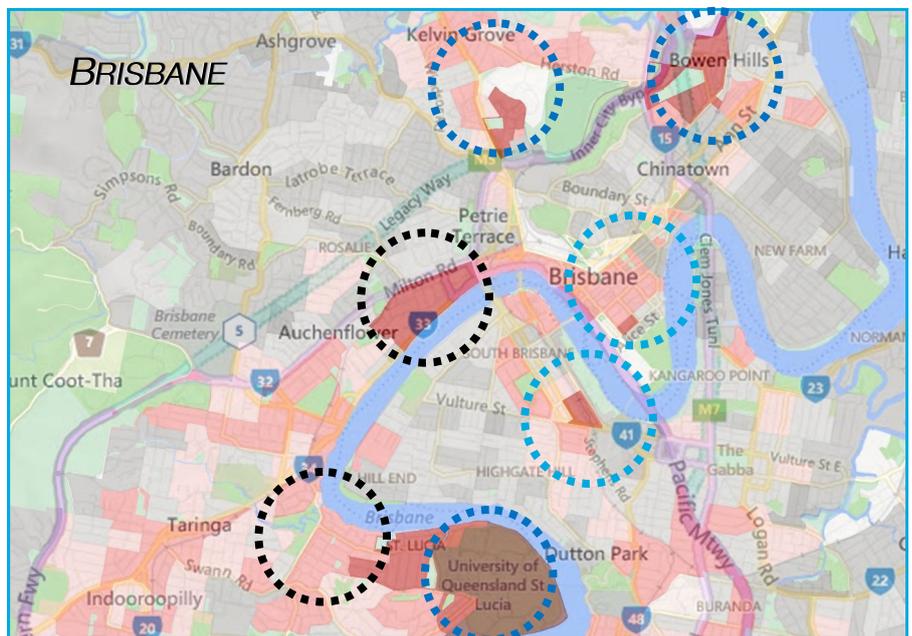
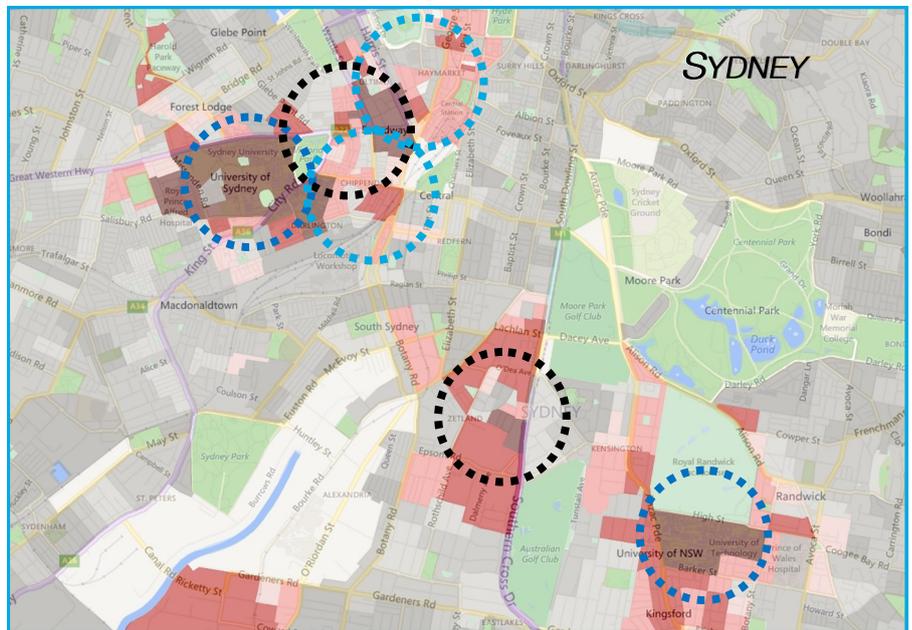
Sydney

Inner Sydney, arching from Haymarket at the southern end of the CBD to Kensington/Randwick is home to the largest concentration of students in university or tertiary education. Historically, Sydney based students were housed in University colleges aligned to University of Sydney and UNSW. As enrolments expanded PBSA emerged around Broadway and the UTS campus. The recent development of high density residential apartments throughout Waterloo, Zetland and Roseberry, typically aimed at buy-to-rent investors, has subsequently absorbed a high proportion of the underlying student accommodation demand, and is a current residential hotspot for students. With the development of 1,299 new student beds by Urbanest at Darling Harbour (staged opening in February 2017 and July 2018) and around 1,850 new student beds in close proximity to Redfern Station (including schemes by Scape, Iglu and the University of Sydney) a gravitational shift will occur back to the student heartland, with a projected decreased residency in the private rented sector, intensified by declining rental vacancies and rising rents.

Brisbane

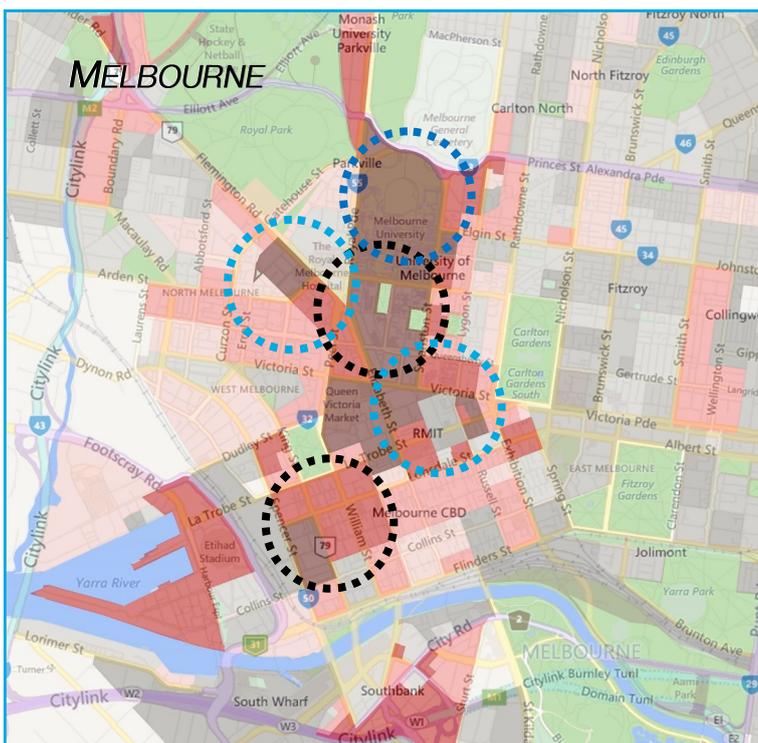
Significant new supply over the next four years, a response to the City Council adapting planning regulations for a period of three years from 1 July 2014 to allow for reduced developer contributions on sites which fell within specified parameters, thus making projects viable, will shift the student living focus back to the CBD (4,165 beds), and a new hub (5,575 beds) centred on the

South Bank side of Brisbane, around Vulture St and south towards Buranda. However, the University of Queensland's St Lucia campus will remain the heartbeat of student living once the University's Student Residences Project, offering accommodation for 1,300 additional students is complete in 2020. Toowong will remain a student hotspot with a further 1,800 beds to be added to the sub-market by groups such as Scape and Atira.



Melbourne

In the case of inner Melbourne there is a strong concentration of university students in and surrounding the University of Melbourne's Parkville Campus, immediately north of the CBD. Similarly, the concentration of students living in close proximity to RMIT's city campus is significant. Outside of this students are broadly spread throughout inner Melbourne, including the Docklands and Southbank, where a significant amount of high rise residential apartments have been constructed. With Melbourne home to the largest number of overseas students, inner Melbourne is the logical choice for housing given the close proximity to campuses and transport links, coupled with the social benefits beyond university hours. This trend will continue as development intensifies across three pockets. The area south of Franklin St, namely around La Trobe St will see 3,875 beds to be developed by Atira, Iglu and Scape across just six sites. Surrounding the Haymarket roundabout groups including GSA, Centurion, Atira and Unilodge will develop just over 2,625 beds for operation by 2021. Thirdly, the area around the Swanston St-Queensberry St intersection will have the largest share of new delivery, amounting to 5,060 beds, to be operated by GSA, Redefine, Urbanest, Scape University of Melbourne and Cedar Pacific amongst others.

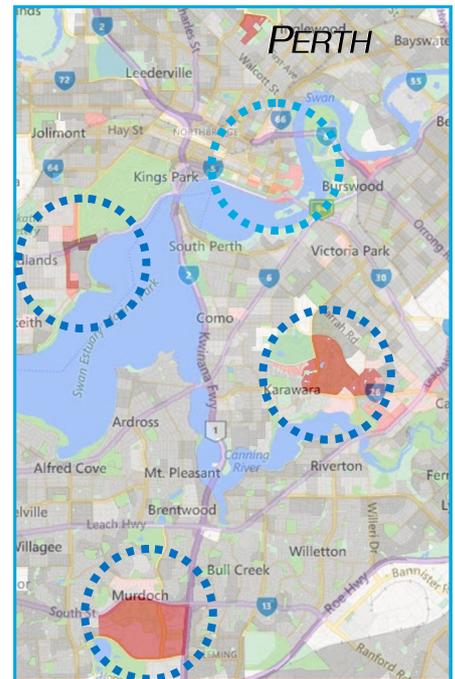


Adelaide

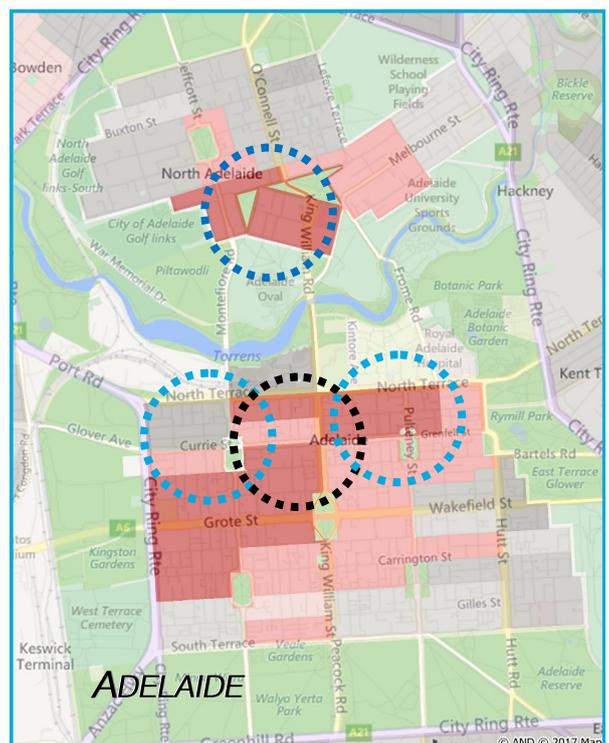
For the Inner City region, where university students live is broadly spread throughout the CBD, however concentrated on or adjacent to North Terrace (close proximity of the University of Adelaide and University of South Australia city campuses) or in traditional residential collages located north of the River Torrens. Looking forward, our analysis highlights that 1,117 new beds are anticipated to be added to the market in 2018. This large boost in supply in 2018 will arise from two separate projects. Urbanest, is developing a 20+ storey tower, directly opposite the University of Adelaide on North Terrace, comprising 689 beds. In addition, approximately 428 beds, will become operational as part of Blue Sky Private Real Estate's (Atira) mixed use development on Wymouth St. In 2019, approximately 280 new student beds are expected to be operational in a 20+ storey tower on Synagogue Place, delivered by the Kyren Group for Centurion Corporation.

Perth

Perth HE institutions are spread throughout the outer suburbs of the metropolitan area, with little activity in the CBD. Students traditionally followed their campus location, living in University accommodation, or on campus housing operated by CLV, as the development of modern and quality PBSA



has been limited. Times are changing with the announcement and encouragement of institutions and students back into the CBD, to help reinvigorate the vibrancy of the city centre and improve its day and night-time economy. From the 2011 to the 2016 Census almost no increase in student numbers living within inner Perth occurred, however we expect the next Census to show a rapid rise in students resident in the CBD as four schemes totalling 2,434 beds will be developed on Stirling, Roe and Wellington Streets close to Perth Station.



Source: Knight Frank Research, ABS

TARGETING STUDENT HOUSING DEMAND

Student enrolment data highlights the changing nature of a cities higher education landscape, with institutions increasingly favouring a transition to inner-city spaces.

It comes as no surprise that investors and operators have targeted certain pockets for the development of purpose built student accommodation. City centre locations are favoured and will continue to be as suburban based universities, such as those in Perth and Melbourne (Monash, Deakin and La Trobe) build their CBD presence to primarily attract and retain postgraduate and business students, exemplified by the recent leasing of 10 William Street by CQ University (2,100m² over four levels) and 750 Collins Street by Monash University (10 levels over 37,300m²).

By analysing the wide-ranging and detailed information obtained via the Department of Education and Training, Knight Frank Research has been able to identify those postcodes (by campus location) which have grown their FT HE

overseas student enrolments since the recent 2012 academic year dip in enrolments. Likewise, the data highlights those locations which have seen a drop in international student enrolments, the most high profile being the Macquarie University, North Ryde campus, which has seen a fall of 25% since 2012, or a reduction of circa 2,560 FT HE international students at this particular campus (see Figure 5).

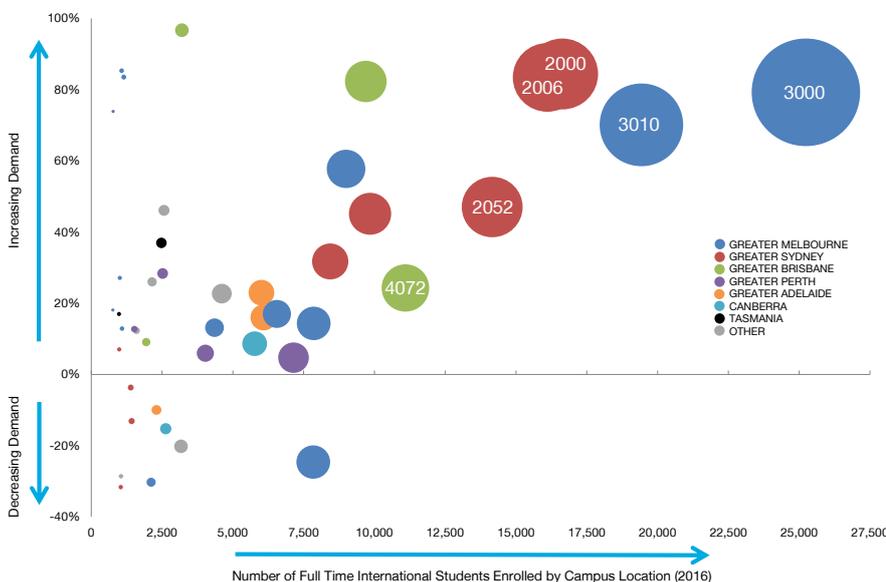
The data highlights the locations at a micro level of where international students, in terms of their education, are enrolled. The data also demonstrates the clustering of international students in Melbourne and Sydney (blue and red 'bubbles' in Figure 5). The top five postcodes for FT HE international enrolments are 3000 (Melbourne), 3010 (University of Melbourne, Parkville), 2000 (Sydney City), 2006 (Sydney University), and 2052 (University of New South Wales, Kensington). Combined, 91,569 FT HE international students are enrolled on campuses within these postcodes, recording growth of 73% since 2012, equivalent to an additional 9,659 FT HE international students per

year. For Brisbane, the 4072 and 4000 postcodes account for 19,531 enrolled FT HE international students, 27% enrolment growth over the same period. Along with other site specific research, this information helps enable an understanding of the target market for a particular subject site.

Postgraduates

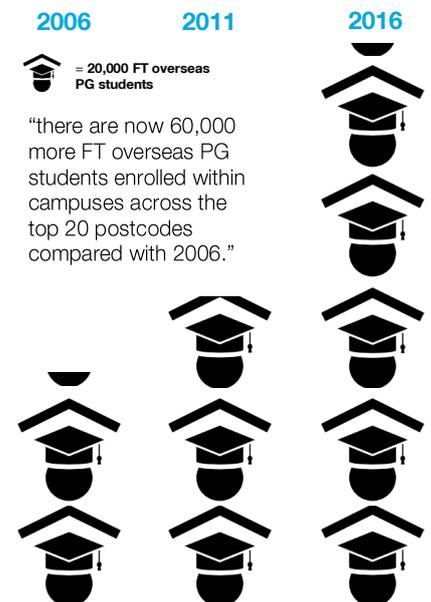
Referencing target market in terms of student accommodation, postgraduates (PG) tend to require a different offering to undergraduates, including more study spaces, bigger rooms and different amenities. Analysing the enrolment information in greater depth, and understanding a location's demographic profile better, will give greater intelligence into the design process of any new development, in relation to unit mix and building design. Figure 6 focuses on those postcodes (by location of campus) with the highest number of international PG FT HE enrolments. Across these 20 postcodes 103,714 overseas PG students are enrolled on a FT basis, up from 58,313 in 2011 and 43,736 in 2006.

FIGURE 6
Growth in International Students by Campus Location Since 2012
Size of bubble represents number of FT international students enrolled at a particular campus/postcode



Source: Knight Frank Research, Department of Education and Training

FIGURE 7
Postgraduates Enrolment Growth
Top 20 postcodes with FT international PG's



Source: Knight Frank Research, Department of Education and Training

WHERE IS THE SECTOR HEADING?

While markets such as the US, UK and Mainland Europe have had deep and liquid student housing markets for some time, Australia is beginning to catch up as global investor appetite increases.

The latest reported example of global capital flowing into the sector was from Singapore based Centurion Corporation, which purchased a development site in the Adelaide CBD for \$3.5 million. The site (to be named dwell Adelaide), which is under construction and scheduled to be operational for the start of the 2019 academic year, has approval for circa 280 beds across single rooms (18-22m²), twin rooms (38-42m²), two bed clusters (54-57m²) and four bed clusters (112.5m²). The March 2017 sale, which forms part of the Frome Central mixed use development, reflects a price per bed of around \$165,000 upon completion (\$45.5 million total development cost).

Second to the Adelaide transaction was the April 2017 sale of two assets at Central Park Sydney by Frasers and Sekisui House to Singaporean sovereign wealth fund GIC. The sale of Unilodge @ Central Park and The Steps Central Park, totalling 1,043 beds was reported between \$400-\$430 million on a net initial yield of sub 6%, and had the benefit of 828 NRAS allocations. The two prime Sydney assets are now managed by Iglu, which GIC acquired for \$150 million in 2014 through a joint venture with Macquarie Capital, with the latter since exiting the arrangement.

These transactions reflect the weight of global capital looking to acquire both development sites and operational student accommodation assets across Australia. Over the next five years groups which are already riding the initial development wave, such as Atira, Scape, GSA, Iglu, Wee Hur, Student One, Cedar Pacific and Centurion amongst others, will all establish operational portfolios.

The second wave of the purpose built student housing market lifecycle will consist of established groups looking to scale up. Portfolio consolidation, for operational economies of scale, will emerge over the next few years with some current groups exiting once assets are stabilised or operational, whilst others look to expand.

At this stage we expect to see new entrants enter the market, with Australian Superannuation funds likely to become interested, alongside other global investment funds. It is also anticipated that there will be a blending of the PBSA and Build-to-Rent/Multihousing sectors with groups targeting a longer life cycle of their occupants.

Rental Affordability

Reflecting other student housing markets, affordability will be a key theme for the next few years. Rising construction and land costs makes the delivery of truly affordable accommodation a genuine challenge, especially in Melbourne and Sydney.

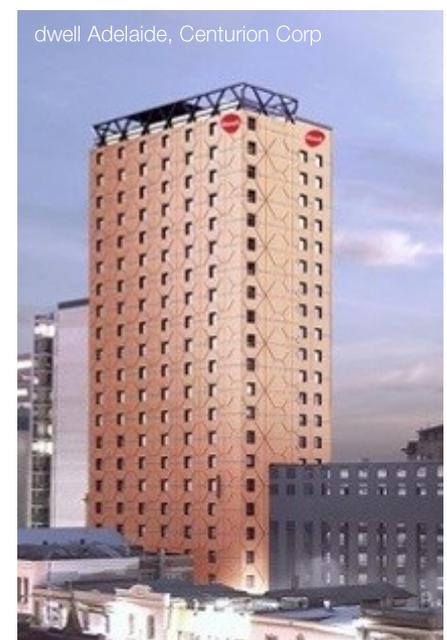
Going forward Knight Frank Research foresees comparatively stronger rental growth for en-suite and non en-suite rooms with shared kitchen facilities compared with self-contained studios throughout this current development cycle, until the market absorbs the historically high supply levels of new product.

However, due to the speed of new development coming onto the market, with 2018 anticipated to deliver a similar number of beds as 2016 and 2017 combined, occupancy levels and rental growth across-the-board will remain subdued. We anticipate there to be higher levels of demand at the more affordable end of the market and will see that trend towards affordability, among both occupiers and developers, emerge.

Policy & Politics

The introduction in July 2016 of the simplified student visa framework (SSVF) made it easier for international students to enter and study in Australia. However, the recent amendments to the 457 skilled work visa may impact on the decision of whether international students continue to choose Australia as a study destination as it creates an atmosphere of negativity around foreign born residents. On the flipside, there may also be a potential spike in interest from overseas students as global education competitors, such as the USA and UK, revolutionise their immigration policies, via the inauguration of Donald Trump and Brexit.

Decisively, a strengthening Australian Dollar, which bounced back above US81c in early September 2017, its highest level since January 2015, has the potential to negatively impact the attractiveness of Australia as a place to study. Although still in safe territory, if there is an extended period of Dollar firming, international student numbers could decrease, as per the experience in 2011 and 2012 when the strong AUD took part blame for falling international student numbers.



dwell Adelaide, Centurion Corp

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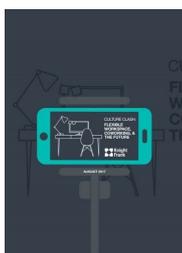
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Front Cover Image: Atira Student Living, South Brisbane

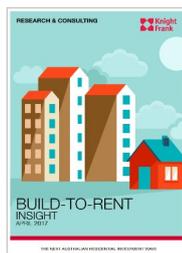
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