

AUSTRALIAN STUDENT ACCOMMODATION INSIGHT

UNIVERSITY STUDENT ENROLMENTS IS STRENGTHENING THE RATIONALE, INTEREST, FEASIBILITY AND GROWTH OF THE PBSA SECTOR

For the 15th consecutive year full time students enrolled at Universities within Australia has increased. For the third year in a row the number of full time overseas students in Australia has grown to reach a new peak.

September 2016

Full time students topped one million in 2015.

Full time overseas students in Australia have grown to 308,704 in 2015 from 116,304 in 2001.

92,070 purpose built student accommodation (PBSA) beds are operational in Australia. A further 28,517 beds have the potential to be developed during 2017, 2018 & 2019.

Australia's simplified (and paperless) student visa framework (SSVF) came into effect on July 1st 2016. International students will now apply for a single Student visa (subclass 500), regardless of their chosen course of study.



PAUL SAVITZ

**Director,
Research and Consulting**

“Full time domestic students have increased by 111,500 since the demand driven funding system (uncapped university places for domestic students) was introduced in 2012.”

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Over the four months since Knight Frank released its April 2016 report *“Supply, Demand, needs and the investment opportunity in the Student Accommodation sector”* the market has moved on at a dramatic pace. Modern additions to stock, large portfolio sales, significant applications, new entrants and a renewed directive from the Federal Government in abandoning its policy of full university fee deregulation, are all matters to have occurred since April.

The August 2016 release of the 2015 enrolment data for full and part time, domestic and overseas students at Australian universities is the basis of this update, and will only act as additional fuel to the fast revving investor and developer engine.

Full and part time students enrolled at universities within Australia now totals 1,410,133. This total figure represents growth of 2.7% on the previous year, and 18.2% above the 2010 figure. Of the total, 71% or 1,000,373 students are enrolled on a full time (FT) basis, up 2.9% from 972,336 in 2014 and with the majority (76% or 758,921) located across three states, New South Wales, Victoria and Queensland (see Figure 3).

For the third consecutive year the number of full time overseas students enrolled at Australian universities has shown positive growth (5.5%). Full time overseas students now total 308,704, or 31% of all full time students in Australia (see Figure 2). As a comparison only 23% of the c1.7 million full time university students in the UK are from overseas (2014/15, HESA).

The simplification of the student visa application process, an expansion of international recruitment policies, the relative safety of Australian cities, quality of universities and a historically low exchange rate can be attributed to this growth trend.

Between 2014 and 2015 full time overseas students increased by 16,050. By definition these students are mobile and do not own a residence in Australia, suggesting an additional requirement for 16,050 beds over that same period. Importantly, this bedspace requirement figure excludes interstate and intrastate students who may also require somewhere to reside.

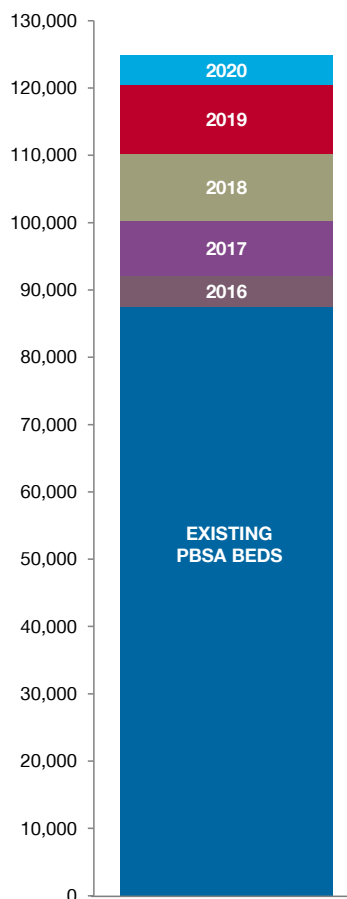
However, during 2015 only 5,611 purpose built bedspaces were delivered to the market, leaving a potential additional 10,439 overseas students scouring internet portals for private rented accommodation. To reiterate, this does not take into account interstate and intrastate students who may also require accommodation, highlighting that the undersupply of suitable and affordable accommodation maybe understated.

If full time enrolments increase on trend during the next academic year, the 2017 rhetoric will be the same, as only 4,519 purpose built bedspaces have become operational during the 2016 academic year, taking total PBSA stock nationally to 92,070 bedspaces. Over half of these bedspaces (57%) have opened in Melbourne and Geelong (2,582), including schemes at Melbourne, Monash, Victoria, RMIT and Deakin universities. The University of Tasmania also completed 120 purpose built studio apartments in Launceston in February 2016. Commercial providers are also adding to stock levels. Urbanest offering 185 beds in Glebe (Sydney), 687 beds by Student One in Brisbane and The PAD/Blue Sky's 286 bed Regent Street scheme (Brisbane) all opened their doors to students in 2016.

Although, 2016 supply levels remain relatively low (5,611 delivered in 2015), the changing fortunes of Australia's diverse economy is beginning to provide an opportunity to investors and developers of student accommodation. The slowdown in mining related industries has amplified office

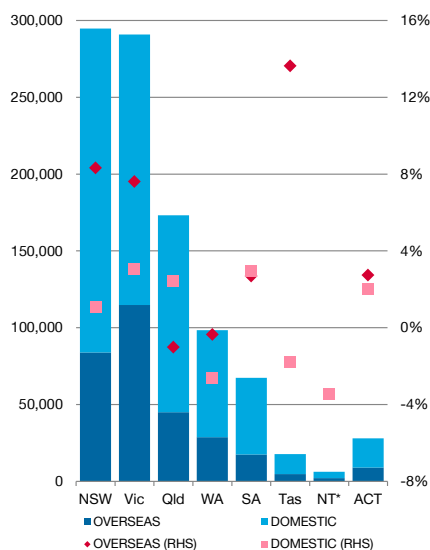
DATA DASHBOARD

FIGURE 1
Potential Supply of PBSA
Bedspaces, by Year of Delivery



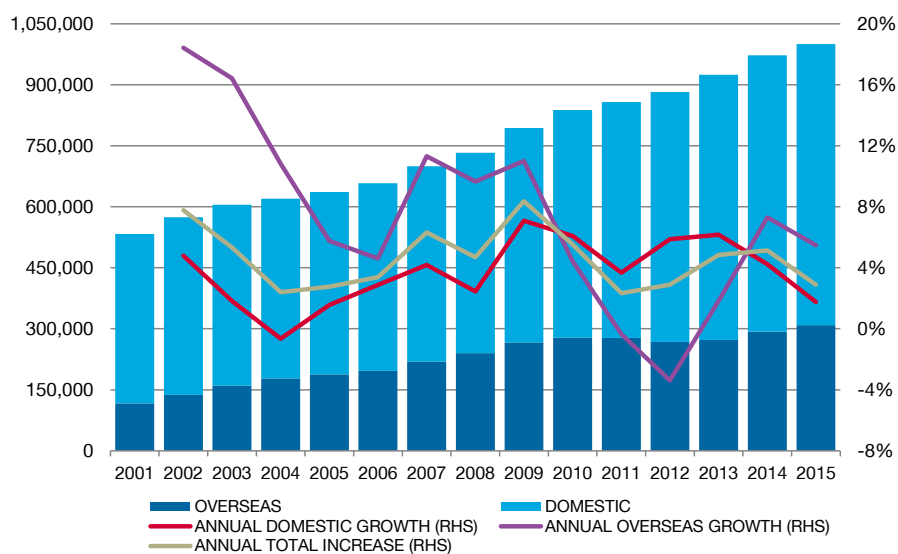
Source: Knight Frank Research (*assumes all schemes are built)

FIGURE 3
FT Students by State—2014 vs
2015 Growth Rates



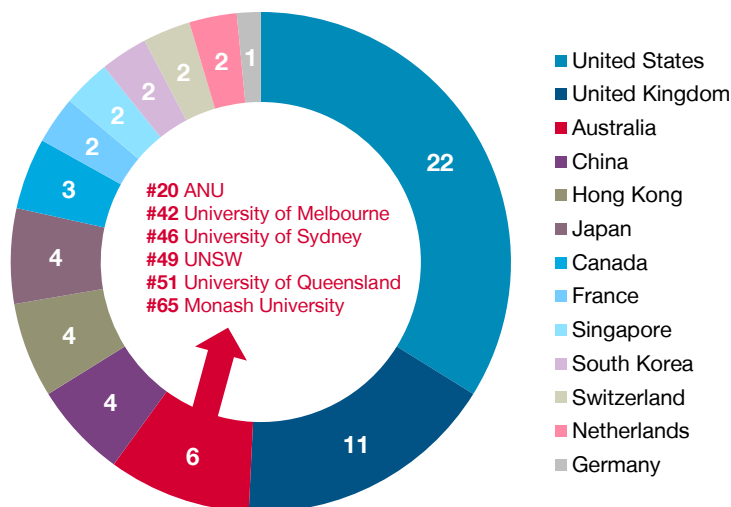
Source: Department of Education and Training
(*Overseas growth not shown as it distorts the chart—37.2%)

FIGURE 2
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 65 by Number, 2016/17



Source: Knight Frank Research using QS World University Rankings 2016/17

TABLE 1
Largest Overseas Full Time Enrolments, by University - 2015

University	QS World Rank	Domestic	Overseas	% of total
Monash University	#65	32,993	24,533	43%
RMIT University	#252	26,110	22,511	46%
The University of Melbourne	#42	28,633	17,519	38%
University of Sydney	#46	31,169	14,872	32%
The University of New South Wales	#49	27,407	13,325	33%
Curtin University of Technology	#306	22,884	13,306	37%
The University of Queensland	#51	30,036	11,988	29%
The University of Wollongong	#218	14,485	10,063	41%

Source: QS World University Rankings 2016/17, Department of Education and Training
(table showing Universities with over 10,000 FT overseas students)

vacancy rates across both the Brisbane and Perth CBDs. In response, the pipeline of office to student accommodation conversions is increasing, highlighted by Cromwell's (Redefine Properties) most recent application for the conversion of two office towers on Charlotte and Mary Streets in the Brisbane CBD for 954 beds.

International equity continues to be attracted to the sector, as institutions look to diversify capital across regions and into assets perceived as 'less risky' and higher yielding. Over the past few months it is understood that Dutch pension fund asset manager Bouwinvest has joined fellow compatriot APG in committing upwards of \$75m into Scape, who are also backed by China's ICBCI International as investors.

The Dutch fund manager is joined by Johannesburg-listed Redefine Properties who paid \$30m in April to acquire a carpark on the edge of the Melbourne CBD for the development of student accommodation. This follows Blue Sky Private Real Estate announcing a \$1bn student accommodation joint venture with global investment firm Goldman Sachs, with the intention of building a portfolio of 5,000 to 10,000 purpose built student accommodation beds across Australia and New Zealand over the next few years. Shortly after that deal the JV partnership purchased a majority stake in leading Australian student accommodation provider The PAD.

In July the market also witnessed one of its largest deals so far, with Infratil and Commonwealth Superannuation Corporation being awarded a 30-year financial concession and lease

arrangement on nine existing ANU residences consisting of c3,760 beds, in exchange for the capital funds to upgrade facilities. The \$165m deal provides the consortium with a stable, long-term inflation-linked cash flow and rights and protections regarding the development of additional on campus PBSA residences. However student rents will not exceed 75% of market rates, and rental tariffs will be calculated based on a pre-determined formula referenced to changes in the consumer price index. Following the ANU experience it is understood JCU and Curtin University are also close to securing similar deals.

Similar to the university lease deals, an offshore Asian investor purchased the 233 bed UniLodge @ UNSW in Sydney from a private domestic investor. The asset, which sold in July for \$57m on a sub 6% cap rate, included a long term lease until 2035 including options to the UNSW. The deal allows for annual CPI

reviews (with ratchet) with market reviews upon the commencement of each option to renew, the first being in 2020.

In August, Whitely College, the 130 bed Melbourne residence, with redevelopment potential, sold to GSA who will take ownership in 2017. This would be GSA's second transaction after acquiring Campus Estates and its 350 bed student accommodation development site in Carlton, Melbourne in early 2016 for \$21m; both are steps towards GSA's target of securing 25,000 beds under management by 2025.

The year will end with the likely sale of the global Campus Living Villages portfolio, which includes around 40,000 bedspaces within c70 properties spread across the UK, USA and Australia. The UBS led deal, estimated at \$2bn, includes c9,860 beds owned, operated and/or managed in Australia including the recently opened 648 bed Student Village in Melbourne.



CLV Student Village, Melbourne



UniLodge @ ANU – Davey Lodge, Canberra



Ursula Hall Laurus Wing, ANU, Canberra



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2016/17 OUTLOOK

1

Development pipeline in Perth & Brisbane to rise as office to PBSA conversions emerge

2

Continued global investment demand

3

Rental growth to remain subdued as new stock enters the market

4

CLV Australian portfolio to be aggressively contested

5

On-campus procurement projects to accelerate

6

Growth in overseas students in Australia to continue

7

Risk in overdevelopment of premium / studio PBSA schemes in certain locations

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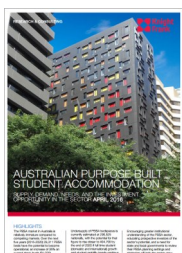
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