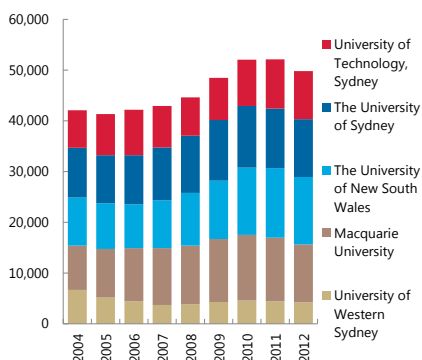


AUGUST 2013 STUDENT ACCOMMODATION INNER SYDNEY MARKET

Interest in the Sydney student accommodation market as an investment choice has increased over the past couple of years due to the growing number of overseas students enrolled in major Sydney universities. This has resulted in growth in development activity across this sector to cater for this uptick in student demand. The Inner Sydney market has shown the greatest activity providing accommodation for students predominately at University of Sydney, University of Technology and the University of NSW.

Recently released data from DIISRTE* on student numbers has shown that major Sydney universities (including Macquarie University and University of Western Sydney) had a total number of 218,775 recorded in 2012, of which overseas students accounted for 22.8%. This result was the first recorded fall in overseas student numbers since 2005; the 4.4% decrease partially driven by the strong AUD making overseas education less affordable. Both the University of Technology and University of NSW however recorded gains in these numbers growing by 6.4% and 3.6% respectively. The peak in overseas student numbers was in 2011 after five strong consecutive years of growth in numbers averaging 4.7% per annum.

Figure 1
Overseas Students
By major Sydney Universities

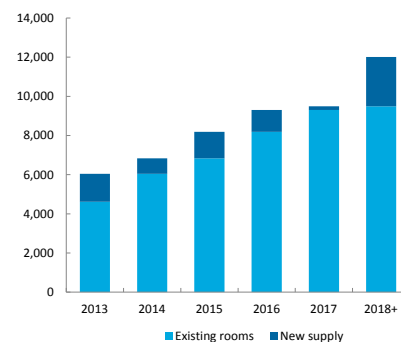


Source: DIISRTE
*Department of Industry, Innovation, Science, Climate Change, Research & Tertiary Education

New & Existing Supply

Knight Frank's analysis of existing Inner Sydney student accommodation has found that there are approximately 4,600 beds currently available. These include both on campus and off-site purpose built student housing (excluding boarding houses). This provides accommodation for less than 15% of the overseas students (or 3.3% of total students) enrolled in higher education across the three major Inner Sydney establishments. With demand high for this accommodation, there are a number of new projects which have commenced across the Inner Sydney area which will more than double this market, seeing 7,300 plus beds added in the next 5 to 8 years.

Figure 2
Inner Sydney New Supply
Forecast no. beds



Source: Knight Frank

These new developments include on campus facilities such as University of NSW's redevelopment of Kensington and Sancta Sophia College and University of Sydney's St Paul's colleges. Together with private developments including Fraser's, Central Park, Kensington Lane development (267 beds) and Urbanest's Cleveland Street (461 beds) development, both currently under construction. Also due to commence shortly is Urbanest's new Wattle Street, Ultimo development (665 beds) due for completion in time for the 2015 study year. Still in the early planning phases is the proposed

housing as part of the redevelopment of the International Exhibition and Entertainment Centre which is expected to provide up to 1,000 student beds. Looking to capitalise on the demand for student housing, 100 Broadway which has been approved and subsequently been marketed as office space within the Central Park development has yet to attract a pre commitment; this has led Fraser's to lodge plans for an additional 826 student beds classed as affordable housing. Dependent on the outcome, the second proposed office building may also be developed to 300 apartments. The outcome of these decisions is likely to hinge on the ability for the local infrastructure and services to handle the additional residents.

The major providers of accommodation across Sydney include Campus Living which manages on campus accommodation, UniLodge, Urbanest and new player Iglu. There is a mix of properties available including studio apartments and properties which provide up to 8-bed ensuite apartments with shared living and kitchen areas. The properties generally are available furnished and provide insurance, internet and communal facilities at differing levels and standards. These variables provide a vast range in prices payable with Studio apartments ranging between \$360 and \$460 per week while apartments with 4 to 6 beds range between \$350 and \$420 per week. On campus facilities are usually fully catered providing onsite meals and entertainment however usually operate during the study semester only and are vacated during the semester breaks. Private establishments however generally provide accommodation in six month blocks and are self-catered.

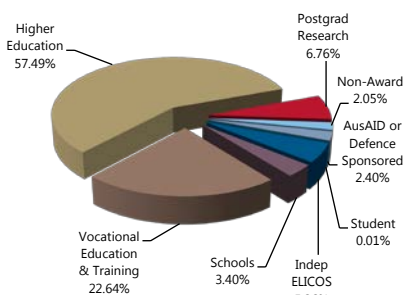
Historically the ownership structure of student accommodation has been mixed. Some schemes are owner operated, others with onsite managers, while others have been sold down to individual strata owners with a manager appointed. The more sophisticated student operators such as

Urbanest and Iglu have cemented their expertise in the Sydney market developing and managing their purpose built facilities; Table 1 highlights the recent development site purchases by these groups.

Demand

Looking forward, the demand for student accommodation is likely to continue due to the attractiveness of Australia to provide quality education coupled with the falling AUD creating greater affordability for overseas students. Data from the Department of Immigration & Citizenship (IMMI) has shown that while the total number of Student Visa Holders decreased in the 2012/13 financial year by 0.9% from 307,050 to 304,251, the Higher Education Sector saw an increase in student numbers. Now accounting for 57.5% of all Student Visas, Higher Education has increased its market from 169,355 in 2011/12 financial year to 174,929, similarly the Postgraduate Research sector has also increased by 6.0% to 20,569 students. The Vocational Education and Training sector was the major driver for the overall decline in Visa Holders due to changes in legislation surrounding entry requirements into this class for private educational institutions.

Figure 3
Student Visa Holders in Australia
Number, Visa Subclass



Source: IMMI

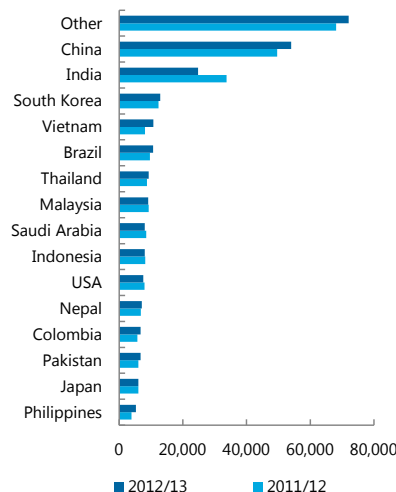
These Higher Education classes of Visa Holders are those which typically would take advantage of student accommodation facilities around major Sydney universities.

Address	Price (\$mil)	Site Area	\$/m ² Site	Comments	Sale Date
137-163 Cleveland St, Redfern	11.00	3,360	3,274	Site currently being developed by purchaser UrbanEst (461 beds).	Jun-12
1 Regent St, Chippendale	4.50	390	11,538	Site developed by purchaser Iglu (98 beds) completed Jan-13.	Jun-12
43 Australia St, Camperdown	8.10	1,695	4,779	Sold without DA, subsequent approval for 135 beds, S.96 amendment to 155 lodged.	Dec-11
81-89 Queen St, Haymarket	14.38	849	16,933	Former carpark, has since been developed by purchaser UrbanEst (334 beds).	Sep-09

Source: Knight Frank

The student Visa's which have been granted during the 2012/13 financial year show there has been some movement in the major countries of origin. China remains the dominate country of Visa recipients, growing their share by 8.9% to 54,015 while other Asian nations such as Vietnam and Philippines have grown strongly albeit off a low base, increasing by 31.4% and 35.3% respectively. South American students are a growing segment of the market with Brazil up 10.2% and now the fifth highest student concentration while Colombia was up 17.8%.

Figure 4
Student Visa Applications Granted
Number, Citizenship Country



Source: IMMI

The largest decline has come from India, falling 26.5% to 24,808 students; a combination of the reduced number of Vocational institutions together with targeted crime concerns resulting in two years of annual declines, most notably in Victoria. Saudi Arabia and the USA also reduced their student numbers this year by 5.1% and 4.5% respectively, both accounting for close to 8,000 students.

Recent Transactions

There has been little transactional evidence of purpose built student accommodation property; these assets while highly sought after are held tightly by major operators. Kensington Lane at Central Park was offered to the market in mid 2012, however details of the sale are yet to be released. In late 2011, a 50% interest in UniLodge at 159-171 Anzac Parade, Kensington reportedly sold for \$21.00 million. The property included 236 beds, 7 retail units, 3 commercial suites and parking for 48 vehicles. The property had 8 years remaining on a 15 year lease term to UNSW Global for the student rooms and also included 3 x 5 year options.

Yields for quality student accommodation assets are likely to range from 7.00% to 7.75%, however given the rarity of the asset, high occupancy and demand by investors, there is scope for this range to tighten over the next few years.

KnightFrank.com.au

Valuations

Tim Miles

Associate Director
+61 2 9036 6701

Tim.Miles@au.knightfrank.com

Research & Consulting

Vanessa Rader

Director, Consulting & Research Services
+61 2 9036 6715

Vanessa.Rader@au.knightfrank.com

Matt Whitby

National Director, Head of Research & Consulting
+61 2 9036 6616

Matt.Whitby@au.knightfrank.com