

INTEREST IN THE SECTOR IS DEVELOPING AS OPPORTUNITIES FOR GROWTH EMERGE

Structural undersupply, increasing occupier demand and the growing level of global equity chasing new investment opportunities is having a positive impact on Australian student accommodation markets

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Australia is the world's third most significant destination for international higher education students, behind the United States and the United Kingdom

In 2013 DISSRTE recorded 161,742 full time students enrolled across five Sydney Universities, growth of 48% since 2001, and growth of 4% since 2012.

Currently around 13,000 PBSA bedspaces including university and commercially owned stock operational across Sydney, and 6,125 bedspaces in the medium term development pipeline

Sydney remains one of the top Australian cities for international investment, with GIC already investing in the sector during 2014



PAUL SAVITZ
Associate Director
Research and Consulting

"Australia's universities are extremely competitive internationally. Twenty three universities are within the top 500 of the QS World University Rankings"

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GLOBAL CONTEXT

The three main factors driving global student accommodation forward are:

- Global mobility of students is increasing
- Global operator appetite emerging, as key management platforms seek to generate international student accommodation brands, such as Global Student Accommodation (GSA)
- Global investor appetite growing with institutions such as Oaktree Capital Management seeking to diversify portfolios.

"With increasingly global students, worldwide student brands, and international investors, student accommodation has become a recognised global asset class."

James Pullan
Head of Student Accommodation

National Context

Student Accommodation as an asset class is somewhat immature compared with markets globally. However, interest in the sector is beginning to increase as lessons learnt and experienced gained from more mature global markets, such as USA, UK and mainland Europe ripple their way to Australia.

It is clear to see why the sector is of interest to global and domestic investors alike. Namely full time students enrolled at Australian Universities have increased every year since 2001, by an average of 4.7%, fuelling demand for associated accommodation.

Another factor attracting the attention of investors is that the proportion of full time students domiciled outside of Australia has averaged 29%, over the past 13 years, growing by 135% since 2001. Students domiciled outside of Australia will more likely require accommodation as on the whole they do not have access to a domestic residence. A depreciation of the

AUD, increasing confidence in student safety, and the simplification of student visa applications will facilitate future growth.

However, in the recently announced (May 2014) Federal Budget the government proposed significant changes to the higher education sector with some key policy initiatives. These reforms are aimed at helping to maintain and enhance Australia's global position as a provider of higher education in an increasingly competitive environment. One of the reforms includes a full deregulation of student fees from 1 January 2016.

Experience shows us that a deregulation of fees could lead to a loss of competitiveness as witnessed in the UK student accommodation sector. From 2012 UK universities were able to increase their fees to £9,000 per annum, up 167%, from a maximum of £3,375. The introduction of higher tuition fees prompted applications nationally to fall by 8%, in the immediate year. However, this led to a 'flight to quality' by students, strengthening the position of the most prestigious universities, and those offering a high standard of accommodation, and compromising those less prestigious institutions with a poor accommodation offer. Interestingly, and most relevant to Australian markets, demand from outside of Europe was undeterred during this period, particularly demand from Asia.

The increasing of tuition fees could be of initial concern to both universities and purpose built student accommodation (PBSA) developers and operators. However, indications are that demand for University places will continue to rise, even in the face of possible significant increases in tuition fees, especially as the key student demographic (18-22 year olds) continues its upward growth trend.

SYDNEY

The attractiveness of Sydney as a place to study remains evident. Over 160,000 full time students are enrolled across Sydney’s five main Universities, growing by 36% in 10 years, including being home to 41,375 international students.

Demand

Sydney’s universities compete on the world stage. Two of Sydney’s universities are ranked in the top 50 of the 2014/15 QS World University Rankings - The University of Sydney and UNSW.

In 2013, DISSRTE recorded 161,742 full time students enrolled across five Sydney Universities, representing growth of 48% since 2001, and growth of 4% since 2012.

The calibre of Sydney’s universities and its amenable lifestyle continue to be a magnet for international students, who are typically a high achieving and an affluent cohort. This is a group which is projected to increase in number. In total there are 41,375 full time international students studying across the five main Sydney universities, this is an increase of 77% compared with 2001.

The number of international students is likely to increase further as Knight Frank’s 2014 Wealth Report shows 34% of global HNWI’s are thinking of sending their children overseas for university education, increasing to 46% and 57% for those based in Asia and the Middle East respectively.

Undersupply

International students are highly likely to require rental accommodation during their studies. The increasing cost of residential apartments in Sydney, with annual capital growth recorded in June 2014 at 13.3% and annual rental growth at 4%, alongside extremely low vacancy levels of 1.8%, is intensifying the appeal of purpose

built student accommodation (PBSA) to students enrolled across the City.

Knight Frank’s analysis of existing PBSA, both on campus and off campus supply associated to these five Sydney universities, shows approximately 12,875 bedspaces. Most PBSA is currently provided by Universities on site. Whilst commercial operators such as Campus Living Villages and UniLodge are both well established in the market, newer entrants such as Urbanest and Iglu have moved into the owner/operator segment in more recent years. This current supply level suggests that the international student to bed ratio across Sydney is 3.21.

Although commercial PBSA is directed towards international students, there is a larger domestic cohort studying within Sydney, amounting to over 120,000 full time students, including a growing proportion of inter-state students, who will also require accommodation. If we conservatively assume only 25% of all domestic full time students would require PBSA then that student to bed ratio would increase to 5.55.

This demand and supply provision ratio is significantly higher than more mature international PBSA markets, such as the

“The University of Sydney accounts for 26% of all full time students in Sydney. The University has both the largest number of domestic and international full time students; partly a combination of its academic ranking, location and the courses on offer makes it an attractive university.”

EMILY FELL
Capital Markets
Student Accommodation

UK. For example total student to bed ratios across major UK cities like London, Manchester and Birmingham range between 3 and 4 students per bedspace.

Global real estate investors are confident with investing at these student to bed ratios as evidenced by recent UK transactions, a market which has seen the equivalent to over AUD \$3.55bn invested annually into the sector over the past two years. This suggests that the Sydney student accommodation sector will begin to attract increasing levels of investment as the market is distinctly undersupplied compared with other mature global city markets.

TABLE 1
Full Time Students by Institution, 2013

University	Domestic	% of total	Overseas	% of total
The University of Sydney	31,178	74%	11,126	26%
The University of New South Wales	25,084	70%	10,605	30%
University of Western Sydney	28,165	90%	3,113	10%
Macquarie University	18,345	69%	8,106	31%
University of Technology, Sydney	17,596	68%	8,404	32%
TOTAL SYDNEY	120,368	74%	41,374	26%

Source: DISSRTE 2013 - Department of Education - Higher Education Statistics Data Cube (uCube)

Rental Range

Across the Sydney PBSA market there are a number of room types advertised to rent. We have analysed existing current bedspaces and the associated weekly rental costs for an annual tenancy. We have excluded those residences which are catered, only concentrating on self-catered accommodation. Generally these rooms or bedspaces are fully furnished, include internet provision and provide a range of shared amenities and in most instances include utility bills.

We note that generally prices per bedspace at onsite schemes provided by universities are generally maintained at a discount in the order of between 26% and 69% below market rates given that significant taxation benefits apply to the universities if they maintain these discounts. Additionally, the majority of the University facilities are not operated on a profit basis.

Future Provision

Looking ahead Knight Frank have identified 6,124 PBSA bedspaces (excluding boarding houses) throughout Sydney, across 19 schemes, which have either applied for or have gained detailed development application approval. The majority of these schemes are located across the south western tip of the CBD, close to campuses, social amenities and transport links.

We have projected when these developments and associated beds will be operational. During 2015 we estimate that approximately 2,730 bedspaces will come to market, the equivalent to 45% of all beds in the development pipeline. Approximately 1,450 bedspaces entering the market in 2015 will be operated by Urbanest (1,121) and UniLodge (328), both adding to their existing PBSA portfolios. In 2015 those beds becoming operational are located equally across Camperdown (29%), Ultimo (26%), Darlington (24%) and Chippendale (20%).

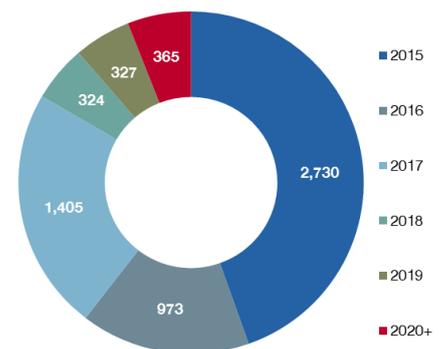
The development pipeline tails off after 2017 with very limited new supply currently expected to enter the market in 2018 and 2019. However, we expect new development applications (office conversions and new build schemes) to enter the planning system over the next two years, across fringe inner Sydney locations, which would push up those development figures.

Universities have begun to address this accommodation undersupply. The University of Sydney has published a Campus Improvement Plan 2014 – 2020, which sets out the future direction for the development and improvement of the Camperdown-Darlington campus. Through the University of Sydney Strategic Plan, the University has committed to providing an additional 4,000 ‘affordable’ student accommodation beds. However, this is

alongside a 68% increase in campus floorspace and a 21% increase in student numbers at the campus. Macquarie University have also released a document which builds on the framework identified in the 2009 Concept Master Plan. The 2013/2014 review of the Master Plan has identified a potential increase in on-campus student housing to a total of approximately 5,000 beds.

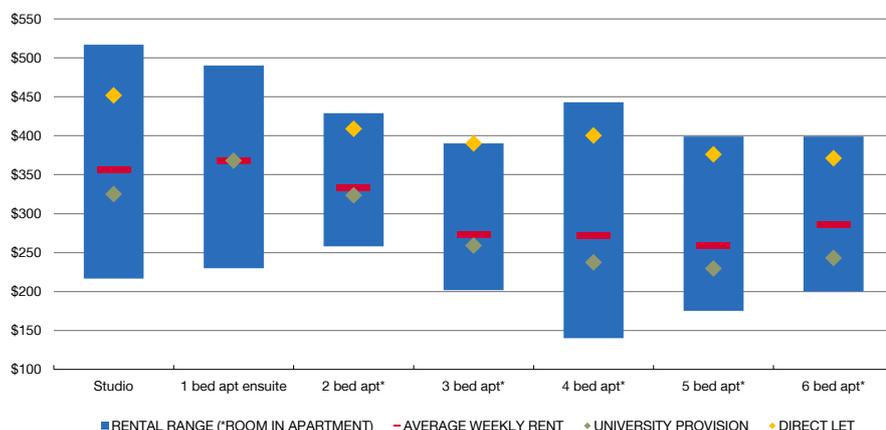
However both University strategies do not state how the accommodation will be funded or developed. This is where the opportunity for private developers and investors may be.

FIGURE 3
Future Supply, Year Operational
Private PBSA Developments



Source: Knight Frank

FIGURE 2
Sydney Metropolitan PBSA Rental Range
2014 Advertised Average Weekly Rent, AU\$



Source: Knight Frank

“The desirable districts surrounding the CBD are where students want to live, close to universities, bars, restaurants and transport links. As a result these areas will become even more gentrified as over 5,000 purpose built student rooms are expected to be developed across these districts over the next 3 years.”



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Outlook

Australia's universities are extremely competitive internationally. Twenty three universities are within the top 500 of the 2014/15 QS World University Rankings, with two Sydney universities in the top 50. Alongside a corresponding rise in academic quality, student numbers are also growing.

In parallel to growth in students, there will be an equivalent need for Universities to grow their accommodation offering. Growth in student numbers should be encouraging for student accommodation providers, developers and investors, and it will also be extremely important for universities to realise the associated accommodation challenges.

If the current levels of growth continue it has the potential to positively affect student accommodation occupancy rates and rents over the forthcoming years, due to restricted existing and future supply. Conversely, considerable growth in total student numbers could negatively impact on Australia's global position if the accommodation offering does not keep up with demand.

There has been little transactional evidence of purpose built student accommodation property, due to a lack of available stock to purchase, and those few assets which are operational are held tightly by operators.

In January 2014 a joint venture between Singaporean sovereign wealth fund GIC and Macquarie Capital bought a majority interest in student accommodation group Iglu. Although the actual investment figure has not been released it is widely regarded as the largest single transaction in Australia's student accommodation sector.

As the market develops, in terms of both knowledge and stock, transactional activity will follow. Urbanest continue to develop their Australian portfolio, whilst the capital injected in to Iglu will be committed to building additional Iglu-managed properties that are close to educational institutions and public transport.

We are aware of a number of international real estate investors who are already operating within the sector globally, and are looking enthusiastically at the Australian, and in particular, the Sydney PBSA market. The depreciation of the Australian Dollar may also provide an additional incentive for foreign investment into the sector.

Net Initial Yields for high quality, well located PBSA Sydney assets are likely to range from 7.00% to 7.75%. However, given high occupancy rates, asset rarity, limited new supply and strengthening global investor demand for high quality PBSA there is scope for yields to tighten over the next few years as the market matures and stabilises.

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