Operational Capital Markets | December 2022

SPOTLIGHT
Savills Research

Australian Student Accommodation 2022

savills

UniLodge Melbourne City, Cedar Pacific

Introduction: From Recovery and Rebound to Growth

It's been a year of transition from the Covid impacted lows, to the post-pandemic recovery and honeymoon period, tempered by a changing world economy and forecast headwinds for 2023. Despite this, Australian student accommodation is well placed to deliver out performance in the near term, with a strong outlook for investment demand into the sector.

After two difficult years with significant operational challenges presented by the pandemic, the Australian student accommodation market has flourished in 2022. There has been a strong rebound in occupancy levels across the main capital cities, and significant recovery in rental levels which are heading towards record pricing in Semester One 2023.

From a transaction perspective, the operational challenges that had restricted deal flow have dissipated, but macro uncertainties in the form of increasing construction costs, inflation and rising debt costs are inhibiting investment into new pipeline projects and sales volumes.

GIC and Ivanhoe Cambridge have both made significant commitments to the sector in 2022 reinforcing the attractiveness from global institutional investors. The lack of opportunities forecast to enter the market in 2023 will be the main hurdle restricting liquidity.

The challenging development environment looks set to create the narrative for performance and outlook of the sector over the medium term. Savills projects there to be significantly less new supply being delivered compared with the last five years, surplus occupier demand for existing buildings, and rental growth in excess of historical averages. These lead indicators suggest that net income growth will be strong, and with stability in yields asset values will remain robust and should continue to grow.

Kev Carmody House, University of Queensland

International Students Rebound

International students are rapidly returning to Australian campuses, with over 386,000 arriving onshore in the ten months since mid-December 2021. Early indicators suggest that 2023 will regain a significant proportion of the onshore international students lost during the pandemic, possibly coming close to the peak 2019 record, a year that contributed $40 billion in export revenue to the national budget.

One reason for the prediction is that visa lodgements are currently tracking close to 2019 levels, albeit dipping slightly on the release of the latest October data, which is generally one of the lowest months for visa lodgements. The challenge thus far has been for the government to process student visas in a timely manner.

Secondly, and most importantly, the projection is down to recent guidance given to education providers to resume in person delivery of courses by 30 June 2023.

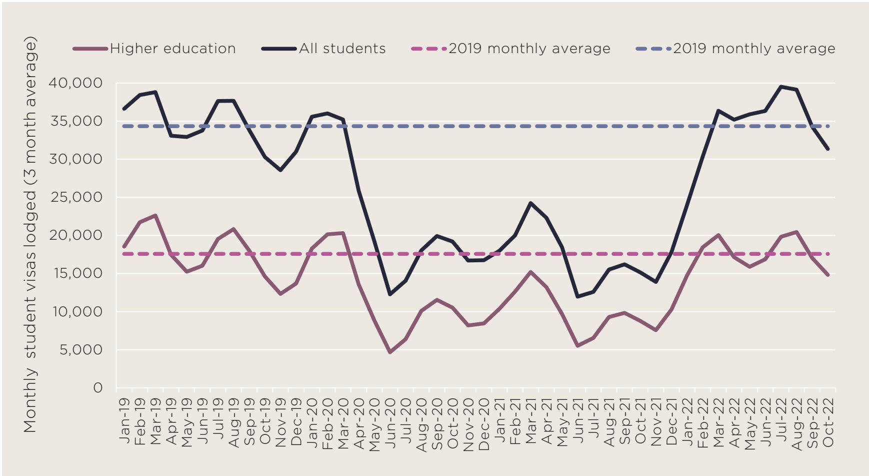
For background in March 2020, TEQSA (Tertiary Education Quality and Standards Agency) and ASQA (Australian Skills Quality Authority) announced flexibility in regulatory arrangements regarding educational services for international higher and vocational students studying either in Australia or offshore.

In particular, ASQA and TEQSA relaxed the requirements for students to attend face-to-face learning and enabled providers to deliver their courses online, in recognition of the impacts of the Covid-19 pandemic. This led to an increase in uptake in higher education courses at some universities by offshore international students, as target cohorts expanded.

The new rules mean that international students will have to be in country during a period of their course for their qualification to be recognised and completed. This will significantly increase the amount of onshore international students over the next 12 months.

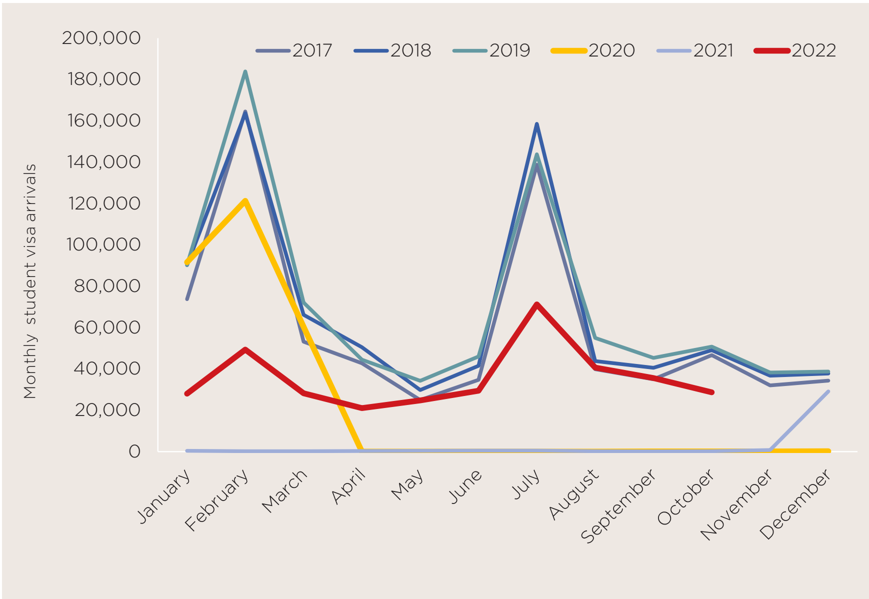
The pandemic generated a shock to international student mobility, highlighting the sensitivity for Australia of cross-border student flows. With the borders now open, a steady stream of international students are arriving into Australia each month. Australia continues to rank highly for quality of education, student satisfaction, and global reputation, and post study work rights all make Australia an attractive destination to study.

Visa lodgement reaching record levels



Source Savills /Department of Home Affairs

International students are steadily returning to Australia

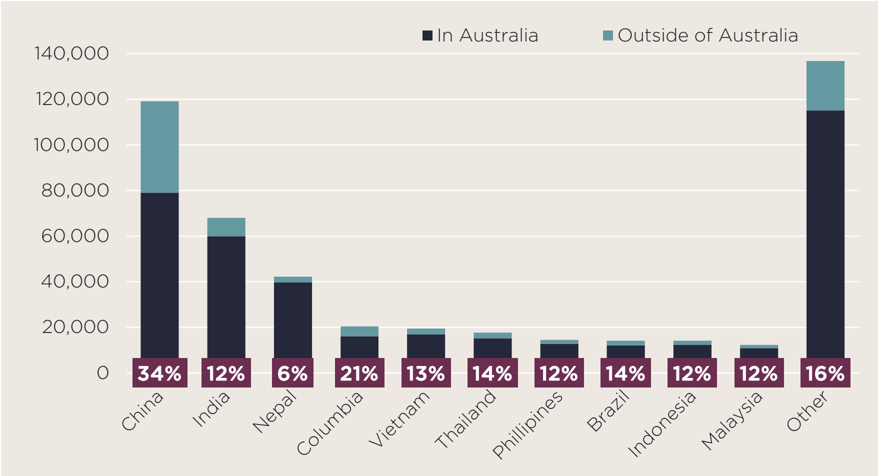


Source Savills/ABS

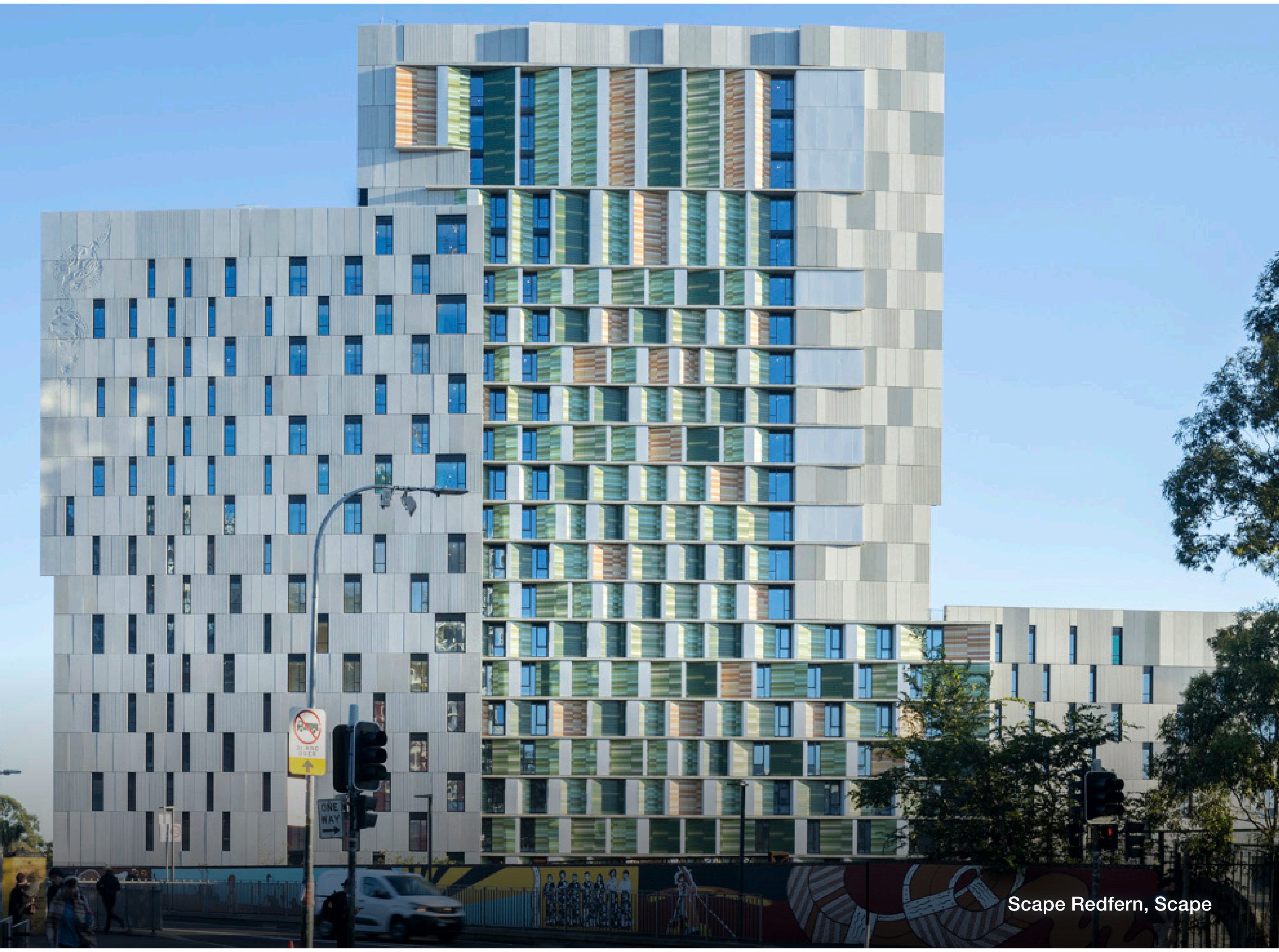
Diversification amongst international students is apparent and is now being targeted post pandemic, however, all signs are pointing to China maintaining its position as Australia's largest source market for international students. The international student market still faces challenges, 40,054, or 34% of Chinese student visa holders remain outside of the country, due to Chinese Covid lockdown policy, air route availability and passport processing.

In total 88,550 international student visa holders remain outside of the country, at a time when universities and operators are reporting near full occupancy across student accommodation facilities.

Top 10 visa holders by citizenship



Source Savills/Department of Education (data as of 14 November 2022)



PBSA Rents Reach New Highs, as Rental Supply Contracts

As predicted in our 2021 report, student accommodation operators have benefited from increased tightness and rising weekly rental rates across residential markets. For the private rented sector, a surge in the disparity between supply and demand has been driving increased rental prices.

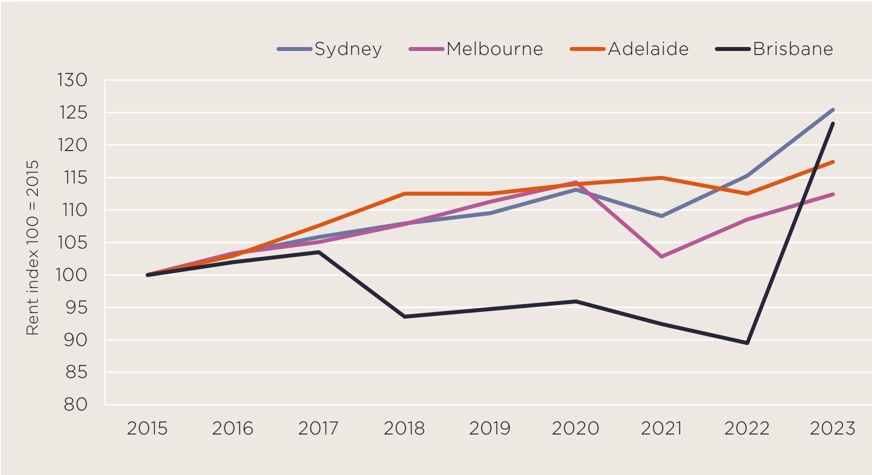
Demand pressures have been caused by a combination of factors, including the lack of affordable home-ownership, changing household formation and the return of skilled migrants and international students.

On the supply side, delays in building completions due to supply chain issues, weaker investment activity and the conversion to short-term rentals as tourists return, is impacting on supply. The consecutive run of interest rate hikes has also exacerbated rental rates, as landlords look to pass on additional home loan costs, while successive falls in the vacancy rate and record-low rental listings is worsening pressure on tenants.

The student accommodations sector has not been immune to rapid increases in weekly rents. For the 2023 academic year studio rents across three of the four largest markets are now at record levels, with Melbourne within 2% of pre pandemic rates.

For the student accommodation sector, a lack of alternative housing options as described above, in addition to the greater acknowledgement of the benefits that PBSA provides has increased the propensity to stay in student accommodation post pandemic, affording operators the ability to inflate rents. For Brisbane, studio rents are now above those of Adelaide and Melbourne, with no new supply forecast to enter the market over the next three years, the potential for rents to rise further is palpable.

Student accommodation studio rents at near or record levels



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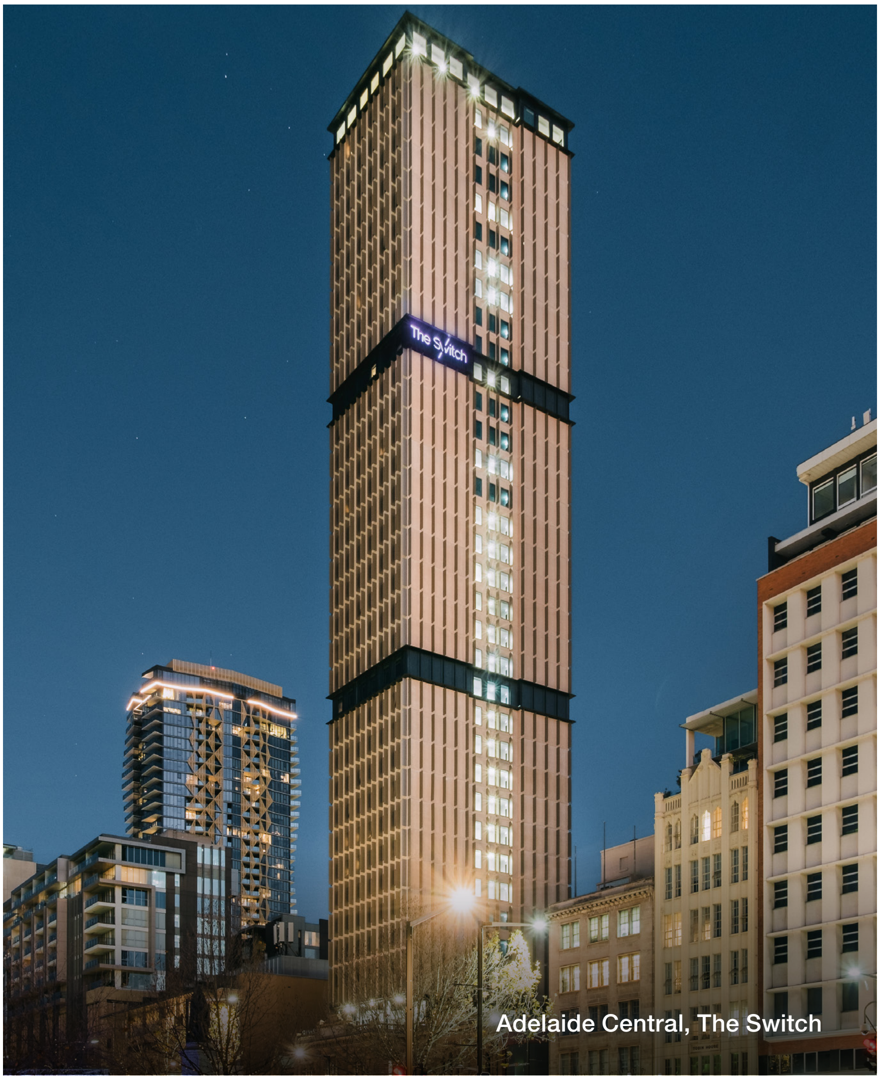


Adelaide Central, The Switch

Muted Supply Pipeline as Challenges Persist

In the last decade, the years with the highest investment volumes (perhaps unsurprisingly) saw large portfolio transactions, demonstrating confidence in the sector. Outside of the pandemic, PBSA has a proven track record of income generation and a fundamentally strong demand outlook.

The last few years have seen substantial consolidation in the PBSA market, limiting opportunities for non-platform buyers. As a result, we now expect market participants to make a meaningful move to a development cycle. While there are signs of this happening, there are also challenges to navigate.

Firstly, acquiring land for development is very competitive, with developers of multifamily, hotel or residential for sale often pursuing the same opportunities.

Secondly, build cost inflation continues to impact viability. Material costs were the major contributor to build cost inflation in 2022, with energy prices and labour shortages adding additional upward pressure. To mitigate these risks, investors will need to partner with developers that have a consistent track record and a strong handle on their supply chains. The natural result is either a reduction in land prices or tighter yields. At the current time, yield stability is the market trajectory.

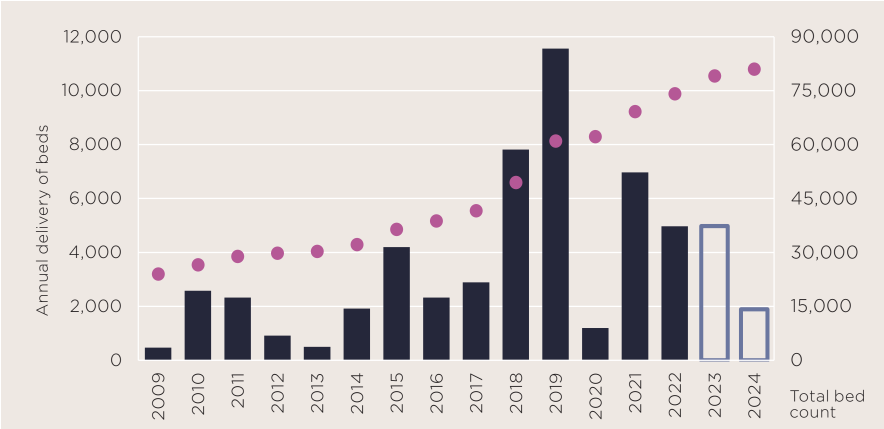
Over 79,100 PBSA beds are available across Australia's capital cities, with an additional 4,973 beds becoming operational in 2022. This level of delivery was 30% lower compared to 2021, however 2021 completions were anomalous due to construction timelines being pushed out, and delivery delayed in 2020 due to the pandemic.

Accounting for 12% of all delivery in 2022, was an on-campus scheme delivered by the University of Queensland. This was the first time the University had delivered an accommodation project. It is expected that more universities will look to deliver on-campus accommodation over the medium term, as predictions of an undersupply mount, or at a minimum create partnerships with off-campus providers to help secure accommodation for their students.

Over the next two years the supply pipeline is muted, compared with the previous five-year average. In 2023, 4,979 beds will become operational, with the level of new supply declining further in 2024 with only 1,892 new beds being delivered to the market. A lower near-term pipeline is a consequence of schemes not moving forward during the pandemic, due to concerns around demand, as well as feasibility and planning delays.

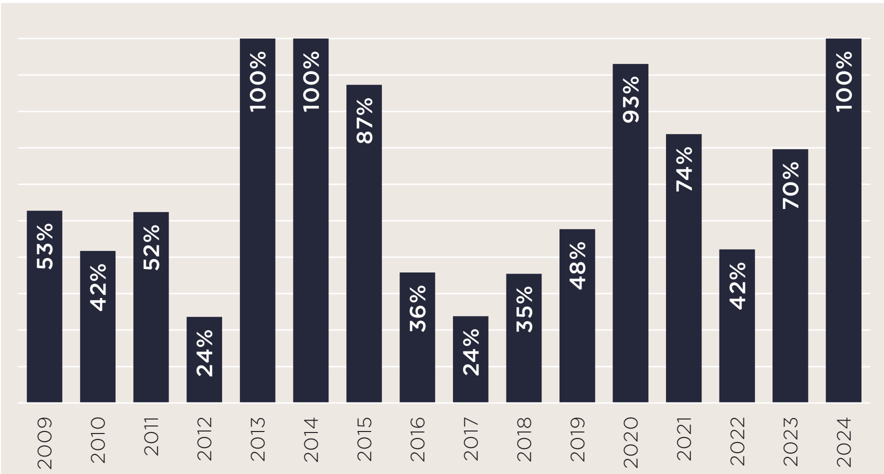
Of those schemes that were progressed, investors targeted the two key global gateway cities, with 70% and 100% of all new beds becoming operational in 2023 and 2024 respectively, across Sydney and Melbourne combined.

Supply pipeline to fall over next two years



Source Savills (data includes on and off campus beds, across eight Capital Cities)

Development focus on Sydney and Melbourne

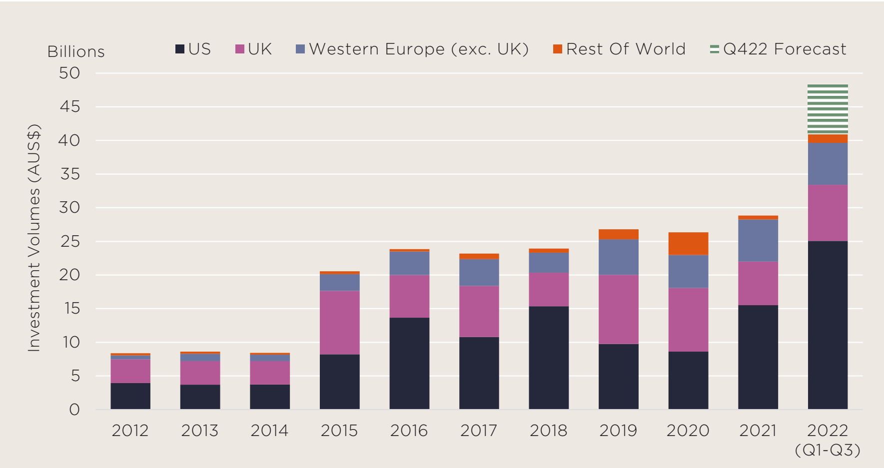


Source Savills (data includes on and off campus beds, across eight Capital Cities)

YSuites on A'Beckett, Wee Hur

New Entrants Emerge, Consolidation Continues

Global PBSA transaction volumes maintaining upward trajectory



Source Savills/RCA

Australian PBSA transaction volumes 2012 – 2022

Year	$ AUD Millions	No. of Beds
2012	0	0
2013	$43	403
2014	$530	1,363
2015	$87	877
2016	$557	3,993
2017	$589	3,123
2018	$440	1,554
2019	$1,446	8,025
2020	$3,112	11,160
2021	$59	602
2022f	$1,208	2,300+

Source Savills

The global student accommodation market will hit record transaction levels in 2022, partly because of the biggest ever acquisition within the sector. Highlighting the continued interest globally within the sector, Austin-based student housing company American Campus Communities was sold to Blackstone in a deal valued at close to $19 billion (US$13 billion).

For the Australian market, after a record 2020, transactional activity ceased in 2021, however, consolidation and expansion returned to be a theme in 2022, with Scape, on behalf of Scape's Student Accommodation Core Program completing on three assets previously owned and operated by UTS for $85 million in January. In the same month, Allianz settled on the second Journal asset for $190 million.

In April Wee Hur announced that it had agreed to sell a 49.9% in a vehicle holding seven student accommodation assets spread across Sydney, Melbourne, Brisbane, Adelaide, and Canberra. The transaction values the entire portfolio at $1.138 billion. However, for 2022, we do not include GICs near $575 million (49.9%) investment, with the first two tranches of that transaction targeting settlement in 2023, and the third tranche in 2024.

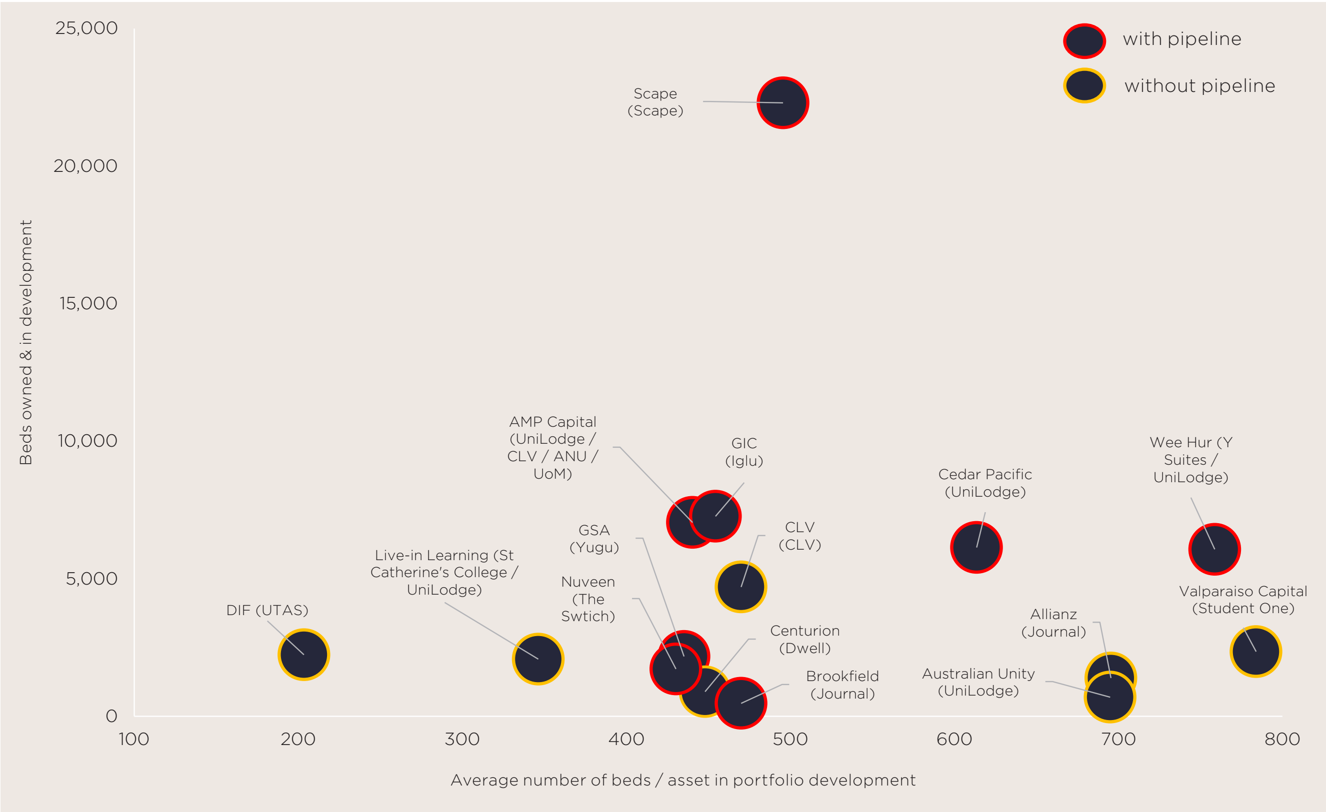
Activity continued, with Cedar Pacific acquiring a 405-bed operational asset in Adelaide, for around $50 million, mid-way through the year, around the same time as the University of Wollongong divested a 144-bed asset for close to $25 million.

Capital commitment has strengthened as demand returned, with Ivanhoé Cambridge committing upward of $750 million to the Scape Core Program, a venture that holds the largest student housing portfolio in Australia, with 27 buildings and over 13,000 beds, predominantly located in Sydney and Melbourne.

The year ended with AMP Capital acquiring a newly developed 731-bed student accommodation facility from the Australian National University for $112 million, structured as a 35-year concession.

With relatively few opportunities for purchasing stabilised operational stock, capital continues to pursue development opportunities, highlighted by Brookfield making its first investment into the student accommodation sector in Australia earlier in the year, taking over a development site opposite the University of Melbourne, seeding what it hopes is a $500 million pipeline of assets.

Top 15 owners - operational and development pipeline



Source Savills (selected groups) *CLV = estimate

UniLodge Herston, Australian Unity

Top 15 Owners of Student Accommodation by Existing and Development Pipeline

The following table provides a summary of the existing student accommodation beds owned, together with the development pipeline for the top private sector owners across Australia, as of 2022.

The Top 15 Owners currently control a total of 52,995 operational beds across 115 properties at an average size of 473 beds. A further 28 properties are planned by the Top 15 totalling an additional 14,544 beds at an average size of 519 beds. Once the pipeline is complete the number of beds owned by those currently in the Top 15 will be 67,539, illustrating an appetite to increase exposure to Australian student accommodation.

Owned	Operational Properties	Operational Beds	Properties in Development Pipeline	Beds in Development Pipeline	Total Properties (Operational and in Development Pipeline)	Total Beds (Operational and in Development Pipeline)
Scape	33	16,300	12	6,000	45	22,300
GIC	12	5,057	4	2,213	16	7,270
AMP Capital	15	6,315	1	731	16	7,046
Cedar Pacific	7	4,116	3	2,020	10	6,136
Wee Hur	4	4,049	4	2,021	8	6,070
CLV*	10	4,700	0	0	10	4,700
Valpariso Capital	3	2,352	0	0	3	2,352
DIF	11	2,238	0	0	11	2,238
GSA	4	1,978	1	198	5	2,176
Live-in Learning	6	2,078	0	0	6	2,078
Nuveen	2	830	2	891	4	1,721
Allianz	2	1,391	0	0	2	1,391
Centurion	2	896	0	0	2	896
Australian Unity	1	695	0	0	1	695
Brookfield	0	0	1	470	1	470

*Estimated

Top Operators of Student Accommodation by Existing and Development Pipeline

The table below shows the Top 11 Operators of student accommodation ranked by total beds under management (including existing operational beds and development pipeline). The Top 11 Operators currently manage a combined 73,451 beds. Including properties to be developed the Top 11 Operators will manage 89,850 beds across 245 properties.

Operators	Operational Properties	Operational Beds	Properties in Development Pipeline	Beds in Development Pipeline	Total Properties (Operational and in Development Pipeline)	Total Beds (Operational and in Development Pipeline)
UniLodge^	81	33,502	7	4,006	88	37,508
Scape	33	16,300	12	6,000	45	22,300
CLV*	15	6,996	0	0	15	6,996
Iglu	12	5,057	4	2,213	16	7,270
Y Suites	2	1699	4	2,021	6	3,720
Student Housing Australia	52	2,450	6	600	58	3,050
Student One	3	2,352	0	0	3	2,352
Yugo	4	1,978	1	198	5	2,176
Journal Student Living	2	1,391	1	470	3	1,861
The Switch	2	830	2	891	4	1,721
Dwell	2	896	0	0	2	896

^UniLodge manage 4,690 beds at ANU which are owned by AMP, 1,551 beds at University of Melbourne - 1,481 of which are owned by AMP, 4,050 beds on behalf of Wee Hur and will manage a further 1,920 beds across various projects in Sydney and Canberra, and 695 beds owned by Australian Unity. UniLodge manage all beds owned by Cedar Pacific existing and development pipelines (except one Adelaide property leased to and operated by University of Adelaide). *CLV Company Profile 2022, CLV Website

Flagstaff Gardens, Iglu

Yields Remain Stable in all PBSA Markets

During 2022 there has been a major shift in the economic and geopolitical backdrop across Australia and globally. Australia is battling soaring inflation, which is now at multi-decade highs, driven by global supply chain problems and rising energy costs. Exacerbated by Russia's invasion of Ukraine and renewed Covid-19 lockdowns in China, there has been a huge impact on the supply and cost of natural gas and oil.

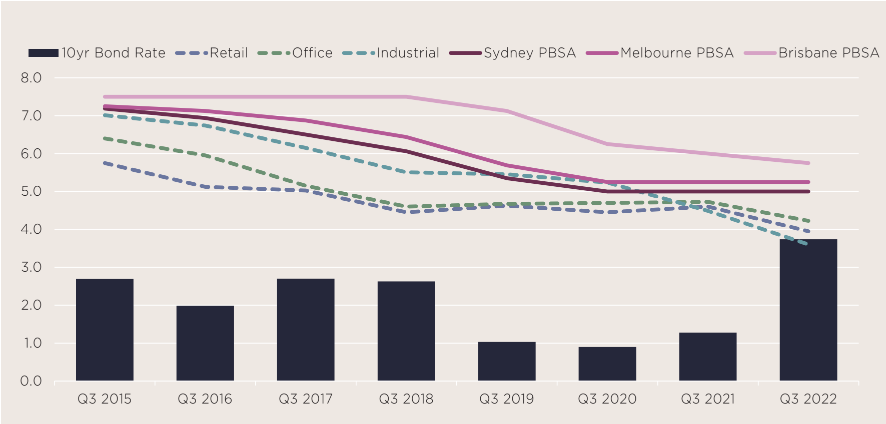
As a result, we have seen a marked shift in monetary policy. The Reserve Bank of Australia has raised interest rates by 300bps over eight months to 3.10%, their highest level since 2012.

With the current economic and political uncertainty, we are seeing a more cautious approach from investors. Highly leveraged investors have temporarily withdrawn from the market, waiting to see what happens over the next few months with interest rates, inflation and build costs.

Nevertheless, we expect that as markets adjust to the new dynamics, investment activity will pick up again in 2023. Appetite for student accommodation remains extremely strong and many investors still have dry powder they need to deploy. The level of competition for limited opportunities will support yields.

While the increased cost of borrowing is impacting all property sectors, student accommodation is well placed to weather the rise. The supply and demand imbalance facing several markets across the country means that the sector is still seeing strong rental growth, and it is one of the few mainstream real estate sectors where landlords can regularly rebase rents to capture growth.

Net initial yields for key PBSA cities against mainstream real estate sectors



Source Savills,RCA,RBA

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