Operational Capital Markets | December 2023

SPOTLIGHT

Savills Research

Australian Student Accommodation 2023

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Introduction

The investment thematic for student housing has never been stronger. Despite the significant weight of capital looking to enter the sector, global transaction volumes look set to hit a near 10-year low. Consistent with many commercial real estate asset classes, global student accommodation capital markets have been challenging in 2023.

Operational performance across Australian markets is at record levels with vacancies almost non-existent and rental growth into Semester 1 2024 across the market well into the teens. After two and a half lean years during the pandemic, owners are now enjoying strong growth in operational revenues, with many of them reluctant to consider selling assets. Rebooking rates for next year are also at record levels, with 40% at the end of October a consistent level through many off-campus properties and up to 85% recorded.

Whilst other property sectors are showing cap rate expansion attributable to the macro impacts of interest rate rises over the last 12 months, and uncertainty prevailing over Investment Committees decision making processes, Purpose Built Student Accommodation (PBSA) yields remain relatively unchanged throughout 2023, in part also due to the lack of liquidity.

Continued lack of buying opportunities and excess demand for investments that provide immediate, or near-term income is putting upward pressure on values for operational assets and provides strong support for yield stability in the immediate future.

Blackstone have signalled confidence in the market with their Q4 acquisition of the Brisbane located Student One portfolio quoted at an initial yield of 5.50%. This acquisition looks set to be the only institutional transaction completed in 2023. The Brisbane market has been one of the strongest in Australia with student and residential rental growth reportedly up to 30% over the last year.

We consider there to be a strong case for outperformance in PBSA rental growth over the next five years, as the planning and development environments in Australia are not conducive to rapid acceleration of supply to meet the critical shortage of accommodation for students in all the main capital cities. However rental affordability, both in the student accommodation sector and across many Australian residential markets is expected to become more of a focus into 2024.

There's a near perfect storm of limited supply in the current market, restricted supply in the short to medium term with many factors pushing up barriers to entry. Alongside a challenging planning system, surging build costs and rising finance costs, record numbers of students are looking to study in Australia.

The chronic undersupply of PBSA is not restricted to the capital cities, with universities across the country highlighting shortages and starting to consider programs to implement the delivery of new stock. This is creating new opportunities for collaboration with private sector participants – an area of the market where we see significant opportunity lies. Development of new accommodation at regional locations on and off campus is also set to expand in the next two years.

We anticipate that the overwhelmingly strong case for more accommodation in so many key markets will lead to a new wave of development in 2024 from both the existing developers and new entrants domestic and international.


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Australia's Changing Student Landscape

The guidance given to education providers early in 2023 to resume in person delivery of courses by mid-year, alongside the Chinese government edict for students to return to their destination University, rather than study online, led to a rapid bounce back in demand for Higher Education in Australia.

The level of visas lodged was already running at a level above any previous year (5% above 2019 for 2022), before changes to policy. The swift return of international students caught many universities by surprise. Highlighting the pent-up demand and desire for students to return to Australia, visas lodged for Higher Education in Australia, after ten months of 2023 are 15% above the number recorded for the entire CY2022 and likewise already 18% above the total CY2019 figure.

Further analysis underscores the turnaround from the downward trend seen during the pandemic years. Estimating the final two months of 2023, suggests that Higher Education visa applications are back exactly on trend with the 2016-2019 trajectory (when adding the last two-month visa applications from CY22 to current YTD23 position), if not slightly above. We expect that Higher Education visa applications to breach 315,000 in 2024 and hit 335,000 in 2025.

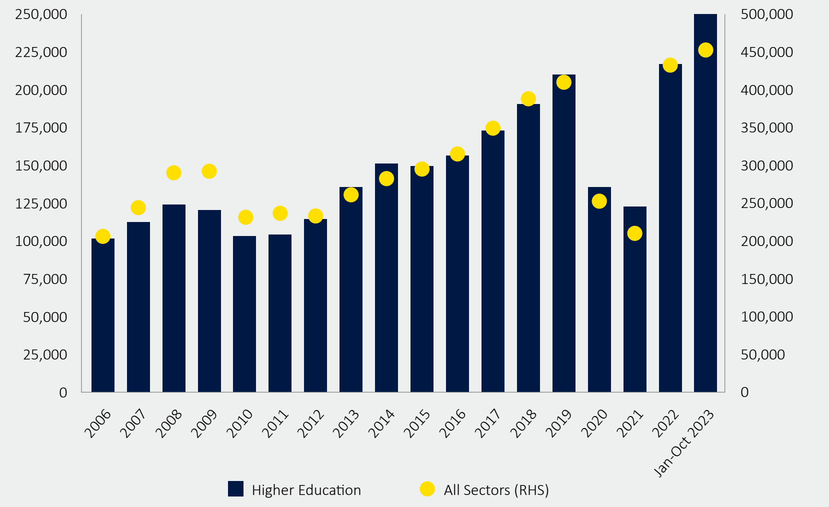
Likewise with visa lodgements, international student arrivals have followed a similar trend. In YTD23 (to end of September) there were 618,350 international student arrivals to Australia, an 88% increase compared with the corresponding period of the previous year. However, this is still 14% lower than the pre-Covid 2019 levels. With such strong visa lodgement data, we expect international student arrivals to surpass 2019 levels in 2024, growing to close to one million by the end of the 2025 academic year.

International student demand is a lead indicator for accommodation demand. This additional flow of overseas students intensified the need for the development of more student accommodation beds, enhanced occupancy, and underpinned rental growth. A trend we expect to continue.

With the continued presence of historically low residential rental vacancy rates (sub 1% nationally), students across all major cities and regional towns are struggling to access appropriate accommodation.

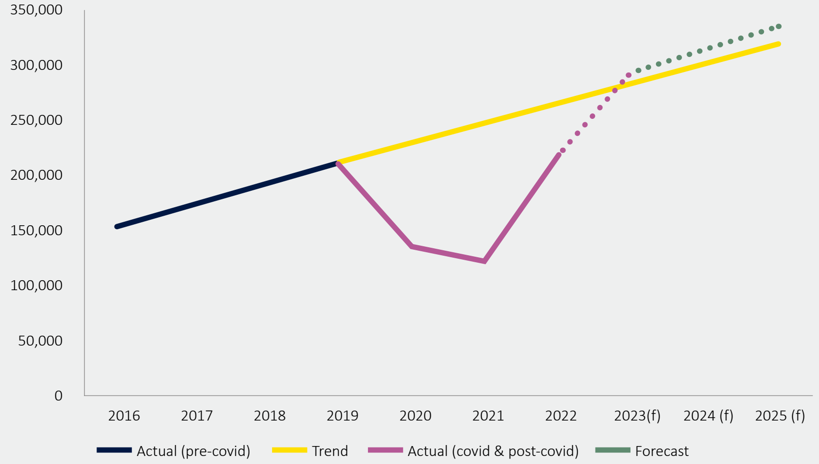
An absence of sufficient, suitable student accommodation is a major roadblock for the aspiration of universities to further grow international student enrolments. International students are a key source of income for universities as federal funding over the past decade has been reduced and withdrawn.

Record Year for International Student Visa Applications



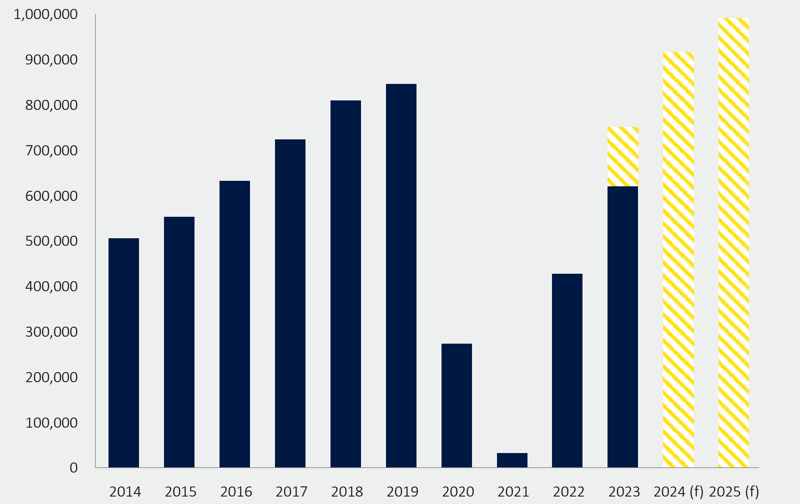
Source Savills/Department of Home Affairs

Higher Education Visa Applications Move To Projected to Grow Beyond The Pre-Pandemic Trend



Source Savills/Department of Home Affairs

International Student Arrivals to Reach Record Levels in 2024



Source Savills/ABS

International students are also a key source of income for the Government and local economies. The absence of international students negatively impacted the national budget by $40bn between January 2020 and the end of 2022.

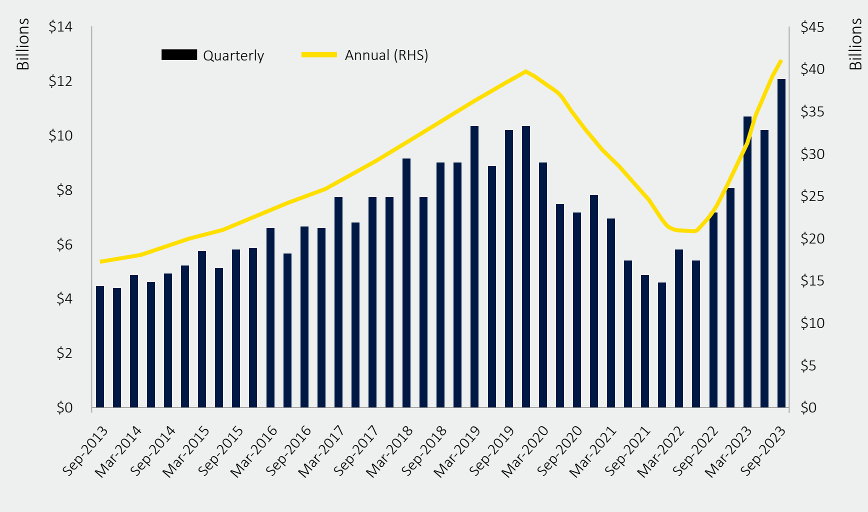
A combination of a lack of knowledge, business case, land, and capital from the majority of universities is restricting delivery of on-campus accommodation, in turn impacting on the ability to recruit new international students. In essence, the private sector stands at a transformative crossroads, where investors wield the power to redefine the very landscape of student accommodation and to support the economic prosperity of universities, local communities, and all levels of government. Their strategic decisions, allocation of resources, and visionary outlook will not only drive the sector's growth and add to the economy, but also determine the quality of living experiences for the students of tomorrow.

With an ever-evolving market and a dynamic mix of players, investors must navigate economic challenges, respond to shifting student demographics, and champion environmental sustainability. Their choices, particularly regarding new developments, financing, and adherence to ESG principles, will ripple across the sector.

As investors assess opportunities, collaborate with educational institutions, and engage with city officials, they're not just making business decisions; they're influencing the educational journeys of countless students, whilst hugely supporting universities and local economies.

Their actions can bridge the accommodation affordability gap, drive innovation, and ensure that the PBSA sector remains a cornerstone of not only real estate investment, but also of Higher Education itself, by supporting University growth strategies, and in turn boost the Australian economy.

The National Budget Lost Out on $40bn During the Pandemic



Source Savills/ABS

Development Remains Comparatively Resilient in a Challenging Economic Environment

Over the past three years the development discussion was firmly focussed on the inner cities of Sydney and Melbourne, within immediate proximity of a Group of Eight University.

In 2023 the sector has seen operational performance strengthen across all markets, and all new beds have been absorbed. Subsequently, investor sentiment has shifted the lens to a wider focus, to locations where market fundamentals are strong, demand/ supply is imbalanced, but a Go8 University is not necessarily within immediate sight.

Almost 79,000 PBSA beds are now available across the inner cities of Australia's eight capitals, with an additional 4,907 beds becoming operational in 2023. This was the fourth largest annual total over the past 15 years for new PBSA beds entering the market.

Reflective of real estate fundamentals and investor preferences during the pandemic almost 100% of new beds which were progressed, and now scheduled to become operational during 2024 and 2025, are in Sydney and Melbourne. From 2026 onward, we expect a more balanced delivery of new accommodation away from Australia's two largest global gateway cities.

The change in the economic landscape does create the need for careful consideration of investment and development strategy in the short term, with some shifting their focus towards locations with higher yields in the medium term.

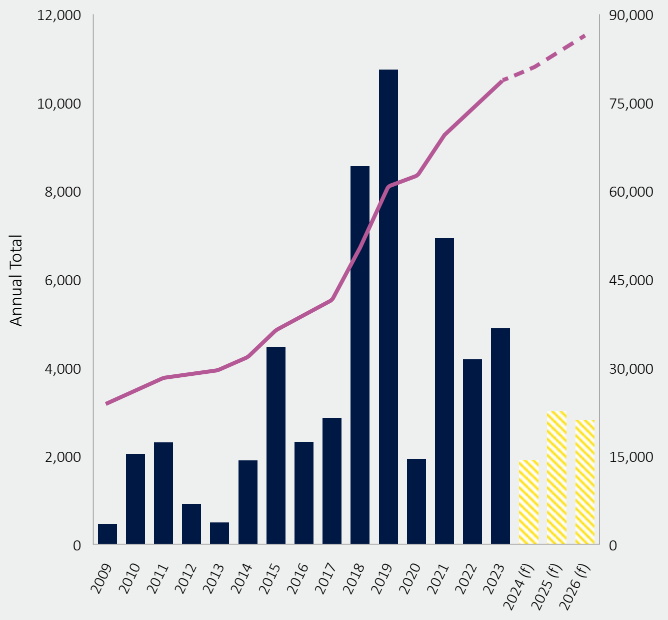
Examples of this include Macquarie Park, a market which to date, has not seen off-campus student accommodation of institutional quality or scale. Over 1,200 student beds are now planned to be completed by the end of the 2026 academic year, with Nuveen (to be operated by The Switch) purchasing an approved site for 488 student beds, and Centurion (Dwell) gaining planning approval for 732 student beds.

In Brisbane, Scape have announced upscaled revised plans to develop 524 student beds on an owned site which has remained vacant for close to six years within the South Bank accommodation cluster.

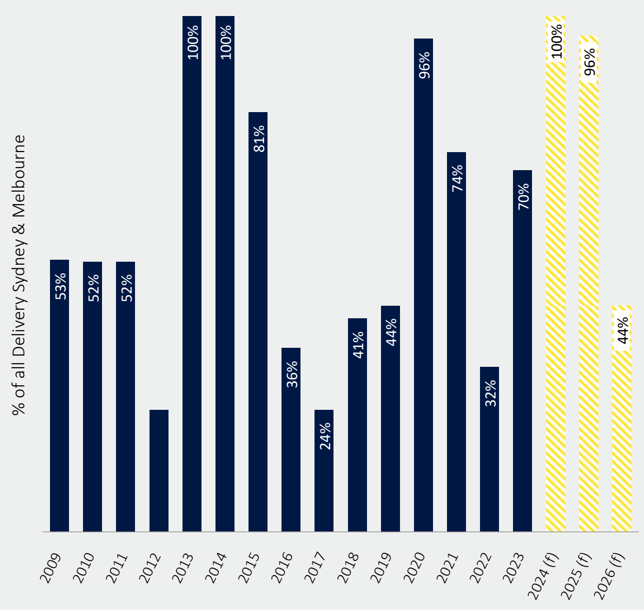
Further west, Australian Unity, having teamed up with investment manager MaxCap Group to develop a $1 billion portfolio of student accommodation facilities, purchased a site close to the new ECU Perth CBD Campus, which will deliver 732 beds, as a seed asset for that venture.

Land values in amenity rich locations close to universities and public transport have maintained their value, impacting on feasibility of schemes, as build cost inflation continues to impact project viability, as well as navigating planning delays.

Financial Feasibility Impacting on Future Pipeline



Development Focus to Shift Away from Sydney/Melbourne

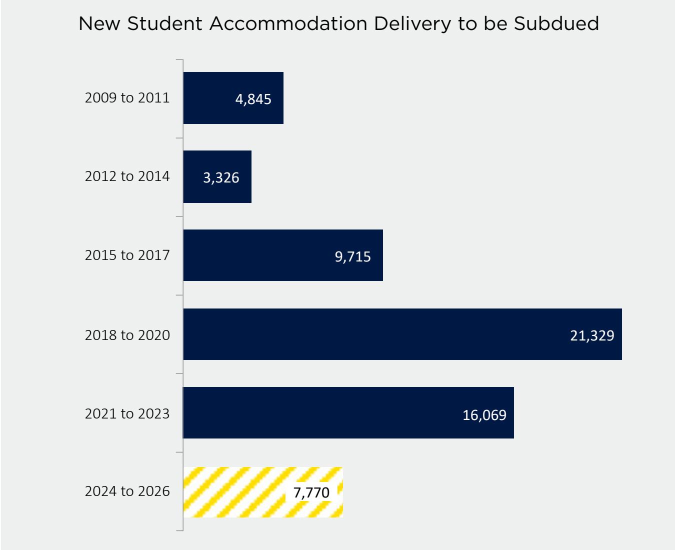


Source Savills/ABS

Highlighting the high barriers to development, the future delivery of new PBSA beds will be significantly below previous levels. We forecast 7,770 new PBSA beds will become operational over the next three years (from 2024), across inner city locations within Australia's capital cities. This is a 52% decline compared with the 2021-2023 period, and a 64% fall on the peak student accommodation delivery period of 2018-2020.

In the face of economic uncertainty, higher construction costs and the elevated cost of debt, the student accommodation sector has strong counter-cyclical features that help investors achieve consistent returns during periods of uncertainty. Unlike many other real estate sectors, rents can be rebased every year, six months or even semester, keeping pace with inflation and adapting to a shifting economic environment.

Looking ahead, these factors will maintain the comparative attractiveness of the sector for investors. This may lead to a further rebalancing of real estate portfolios away from commercial assets such as offices and towards residential focussed assets, supporting the continued growth of the student accommodation sector.



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Like a Wave Gathering Pace, Rents Continue to Sweep Upward

The student accommodation market had been tough for operators throughout the pandemic years. The end of lockdowns, closed borders, and online learning sparked an increase in rental demand for student accommodation. Since the start of the 2022 academic year demand has consistently exceeded supply.

It is very difficult to see where a meaningful increase in new student accommodation will come from over the next five years, as universities look to increase their intake of international students. The development of investor grade residential apartments, an alternative for students, has also fallen to record lows, at a time when net migration has reached record highs.

Prior to the pandemic rebooking rates across the market were around 30%. With demand for accommodation aberrantly high, both on-campus providers and off-campus operators are reporting rebooking rates significantly above the previous trend, with examples of schemes having rebooking rates of up to 85%. The new norm appears closer to 40-45%. This level of rebooking highlights an undersupplied market. Positively for operators, higher rebooking rates adds additional revenue to the NOI profile, as there is less rental leakage to offshore channel agents or booking platforms.

This points to an all-too-familiar imbalance of demand over supply continuing to fuel strong annual rental growth over the short term, which we anticipate could, in some markets still be double digit to 2025.

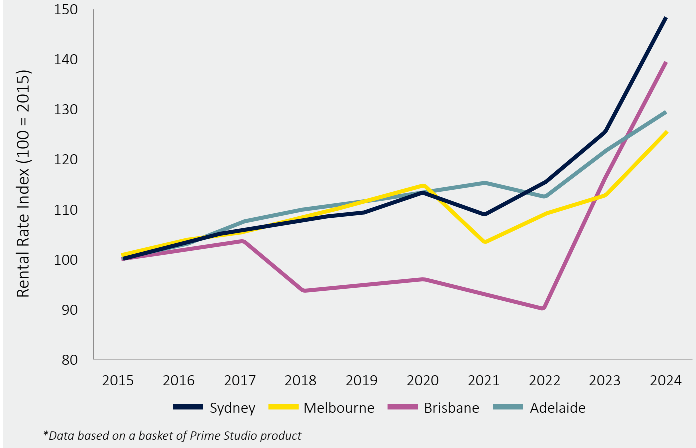
Rental growth in Sydney is expected to outperform other cities over the next five years, benefitting from highly ranked universities, an influx of lifestyle students, and a historic undersupply of accommodation. Rents in Brisbane, having increased the most over the past two years (by 50%), are likely to slow over the next five years, as new supply enters the market from 2026 and affordability ceilings are reached.

As highlighted, the strong levels of rental growth seen across Australia for student accommodation is pushing the question of affordability further up the agenda. Strong growth in rents has already stretched the finances of many students studying in Australia.

The relative pricing and quality of Australia's Higher Education offering and accompanying lifestyle proposition is an important demand consideration and one that international students constantly assess. Before making their decision on where to study, international students will compare Australia to other key higher education markets, such as USA, UK, Canada and New Zealand, as well as some Asian countries and emerging markets.

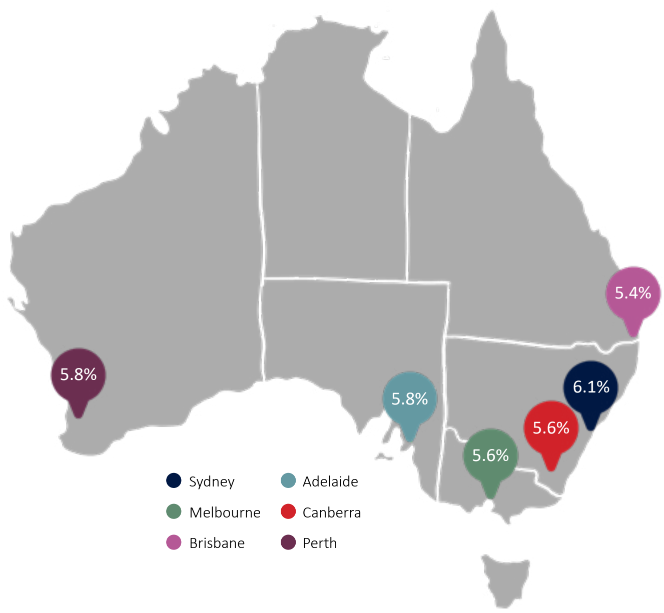
The value of the Australian Dollar has seen significant depreciation over the past 10 years, specifically against currencies where high levels of student enrolments in Australian education originate. A falling AUD, in relative terms, makes studying in Australia more attractive and cheaper, not just for tuition fees, but also for associated costs, such as accommodation and living expenses. The depreciation of the AUD has in part been a stimuli for the increase in international student enrolments across Australia.

Double Digit Annual Rental Growth Across All Major PBSA Markets in 2023

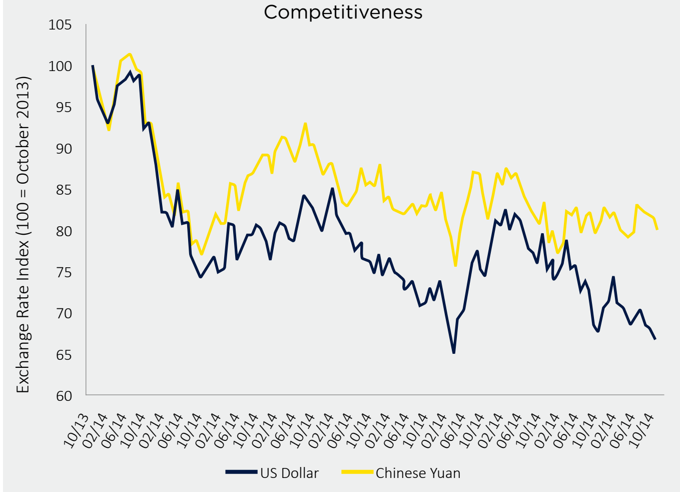


Source Savills

PBSA Rental Growth Forecast (5Yr CAGR to 2029)

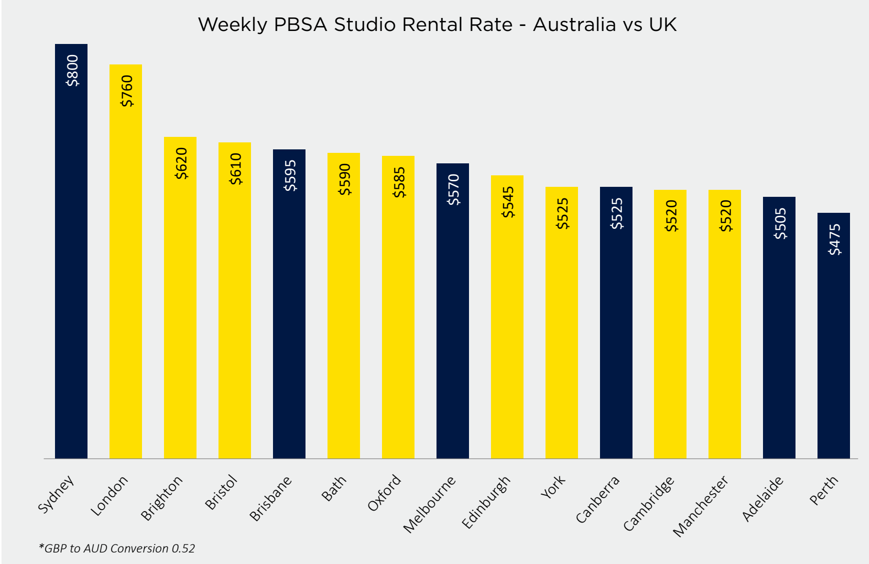


Depreciation of Australian Dollar Maintains Price Competitiveness



Source Savills/RBA

Due to the stickiness of Australian inflation compared to other international economies, and soft economic conditions across the economy most forecasts suggest that the AUD/USD will continue to slide for the remainder of 2023, before beginning to appreciate against the USD over the next two years, potentially rising to 0.8 by the end of 2025. This would still be some 15-20% below the most recent peak and should continue to make Australia an attractive educational export market for international students, providing a positive demand driver as it allows Australia to be more price competitive with other offerings around the world.



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New Entrants Commit to Growing Portfolios

Although the barriers to development have grown, and transactions were at a minimum, there has been movement across the league table of Managers and Operators of student accommodation over the past year.

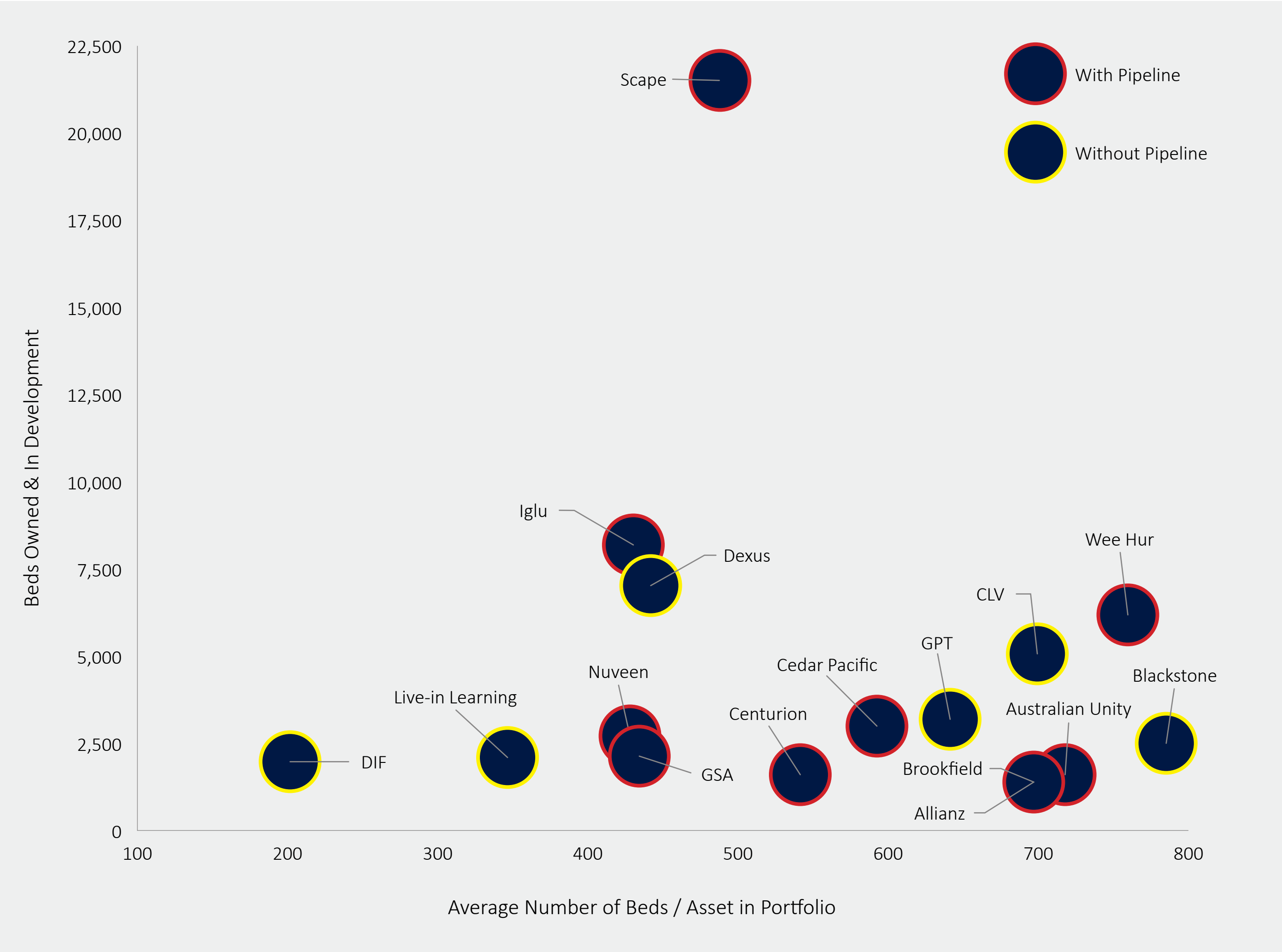
New to the list of Investment or Fund Managers in 2023 is Blackstone, having purchased the Student One portfolio from Valparaiso Capital.

GPT, who commenced the investment and asset management of QuadReal's existing wholly owned Australia and New Zealand Student Accommodation portfolio, is also added to the list. The mandate, previously managed by Cedar Pacific, comprises a significant portfolio of five Australian student accommodation assets housing approximately 3,200 beds, across assets in Melbourne, Brisbane, and Adelaide.

With relatively few opportunities for purchasing stabilised operational stock, and although development remains challenging capital has continued to pursue development opportunities, highlighted by Iglu, Brookfield, Australian Unity, Centurion, Nuveen all increasing their development exposure.

Activity across the market leading Scape platform remained static over the year, however, several sites are currently under construction and will become operational over the next three years.

UniLodge remains the dominant operator of student accommodation Australia wide, having grown their properties under management to 86 (up from 81 in 2022), adding a further 3,500 beds to their portfolio.



Top Managers of Student Accommodation by Existing and Development Pipeline

The following table provides a summary of the operational on and off-campus student accommodation beds, together with the development pipeline for the top private sector managers across Australia, at Semester 1 2024.

The Top 16 Managers currently control a total of 57,434 operational beds across 115 properties at an average size of 499 beds. A further 27 properties are planned by the Top 16 totalling an additional 13,229 beds at an average size of 490 beds. Once the pipeline is complete the number of beds owned by those currently in the Top 16 will be 70,663, illustrating an appetite to increase exposure to Australian student accommodation.

Managers	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	11	5,200	44	21,500
Iglu	13	5,341	6	2,811	19	8,152
Dexus	16	7,046	0	0	16	7,046
Wee Hur	7	5,662	1	409	8	6,071
CLV	7	4,910	0	0	7	4,910
GPT	5	3,203	0	0	5	3,203
Cedar Pacific	4	2,309	1	650	5	2,959
Nuveen	3	1,471	3	1,100	6	2,571
Blackstone	3	2,352	0	0	3	2,352
GSA	4	1,978	1	198	5	2,176
Live-in Learning	6	2,078	0	0	6	2,078
DIF	9	1,802	0	0	9	1,802
Centurion	2	896	1	732	3	1,628
Australian Unity	1	695	1	736	2	1,431
Brookfield	0	0	2	1,393	2	1,393
Allianz	2	1,391	0	0	2	1,391
Total	**115**	**57,434**	**27**	**13,229**	**142**	**70,663**

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 operate a combined 79,696 beds. Including properties to be developed the Top 11 Operators will operate 93,783 beds across 253 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*	86	36,966	4	2,567	90	39,533
Scape	33	16,300	11	5,200	44	21,500
Iglu	13	5,341	6	2,811	19	8,152
CLV	15	7,006	0	0	15	7,006
Y Suites	6	3,675	1	409	7	4,084
Student Housing Australia	52	2,320	6	600	58	2,920
The Switch	3	1,471	3	1,100	6	2,571
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
Dwell	2	896	1	732	3	1,628
Total	**219**	**79,696**	**34**	**14,087**	**253**	**93,783**

* UniLodge manages 5,392 beds at ANU, 4,477 of which are owned by Dexus, 1,481 beds at University of Melbourne, all of which are owned by Dexus, 5,663 beds on behalf of Wee Hur, all beds associated with Cedar Pacific existing and development pipelines (except 1 Adelaide property leased to and operated by University of Adelaide) and all beds associated with GPT.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The Availability and Source of Capital

Investment activity across global student accommodation markets has followed wider real estate trends with YTD transaction volumes indicating decreased liquidity as uncertainty around yield pricing weighs on investor minds, notwithstanding rapid rental growth, high occupancy and increasing NOI.

Transaction volumes have fallen across all real estate sectors, in the face of economic challenges, political instability, and the elevated cost of debt.

However, in Australia the key constraint limiting student accommodation transaction volumes is the lack of properties offered to the market, as most operational assets are tightly held by a limited number of large-scale platform owners.

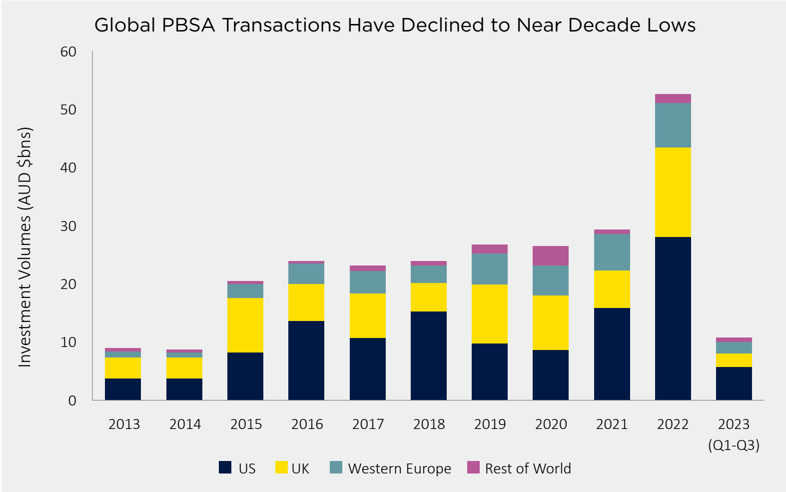
Across the Australian student accommodation investment market there remains boundless optimism around equity and debt for financing new investments and refinancing stabilised assets. The availability of capital, both equity and debt for development has been the biggest concern. This likely reflects a more conservative approach from investors and lenders with the current macroeconomic backdrop, and cost challenges continuing to face the construction sector. As a result, we have seen, and will likely see a slowdown of new development over the near term, further exacerbating the supply challenges facing the sector.

However, the optimism around finance for newly completed developments and refinancing stabilised assets highlights the strong appetite for the sector. This also points to a route for existing operators to free up equity that can be used to continue development.

The Student One portfolio, which settled in Q4 for around $525 million, will be the only scale student accommodation transaction of note in the Australian market in 2023. The initial yield of 5.5%, as quoted by Blackstone, the purchaser of the 2,352 operational beds across three Brisbane assets, is consistent with our existing yield profile.

There had been a continued downward yield cycle in core asset classes despite increasing Government bond rates in 2022. However, since the continued raising of interest rates, yields for core mainstream asset classes have reversed. There is strong sentiment to suggest that student accommodation yields have remained stable, given the weight of capital that is seeking an opportunity to enter the market and the spread of current yields to the 10-year bond rate compared to more mature transactional markets.

There is a chronic undersupply of student accommodation in all capital cities which is leading to near 100% occupancy across the market and double-digit rental growth heading into Semester 1 2024. Investors are starved of opportunities to access the market, particularly for stabilised operational assets. In our opinion these very strong tailwinds coupled with a significant amount of capital looking to enter the market will continue to support yield pricing as we head into 2024.



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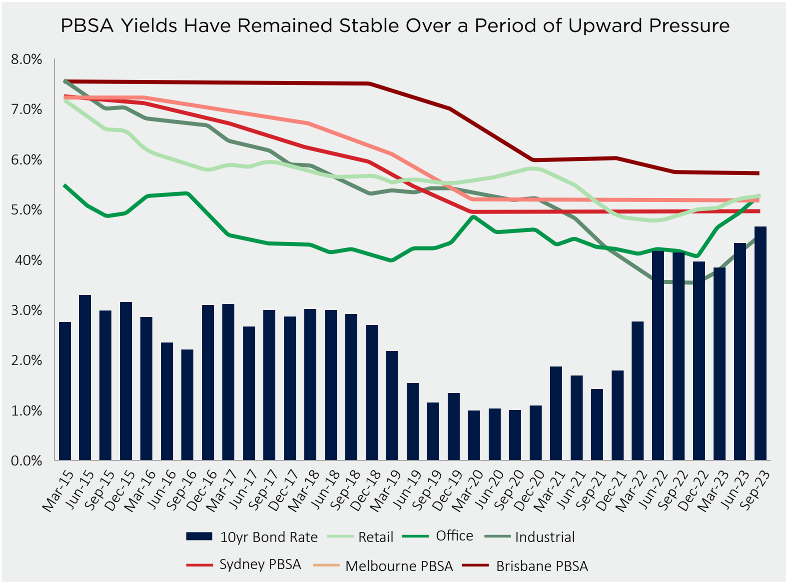

Source Savills/RCA

Australian PBSA Yield Sentiment Summary Q4 2023

City – Prime Asset	Typical Yield Range
Sydney	4.75% - 5.25%
Melbourne	5.00% - 5.50%
Brisbane	5.25% - 5.75%
Canberra	5.50% - 6.00%
Adelaide	5.75% - 6.25%
Perth	5.75% - 6.25%

** Pricing refers to a single asset Net Initial Yield (NIY)*

Source Savills


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Images of PBSA schemes which opened in 2023

Front Page: Melbourne Victoria Market, Melbourne (The Switch)
Page 2: ANU Yukeembruk Village, Canberra (Dexus)
Page 5: UniLodge Melbourne Central, Melbourne (Cedar Pacific)
Page 7: Y Suites on Moore, Canberra (Wee Hur)
Page 9: Iglu Melbourne Central, Melbourne (Iglu)
Page 10: UniLodge Wills St, Melbourne (Cedar Pacific)
Page 13: Iglu Mascot, Sydney (Iglu)
Page 15: Y Suites on Gibbons, Sydney (Wee Hur)

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