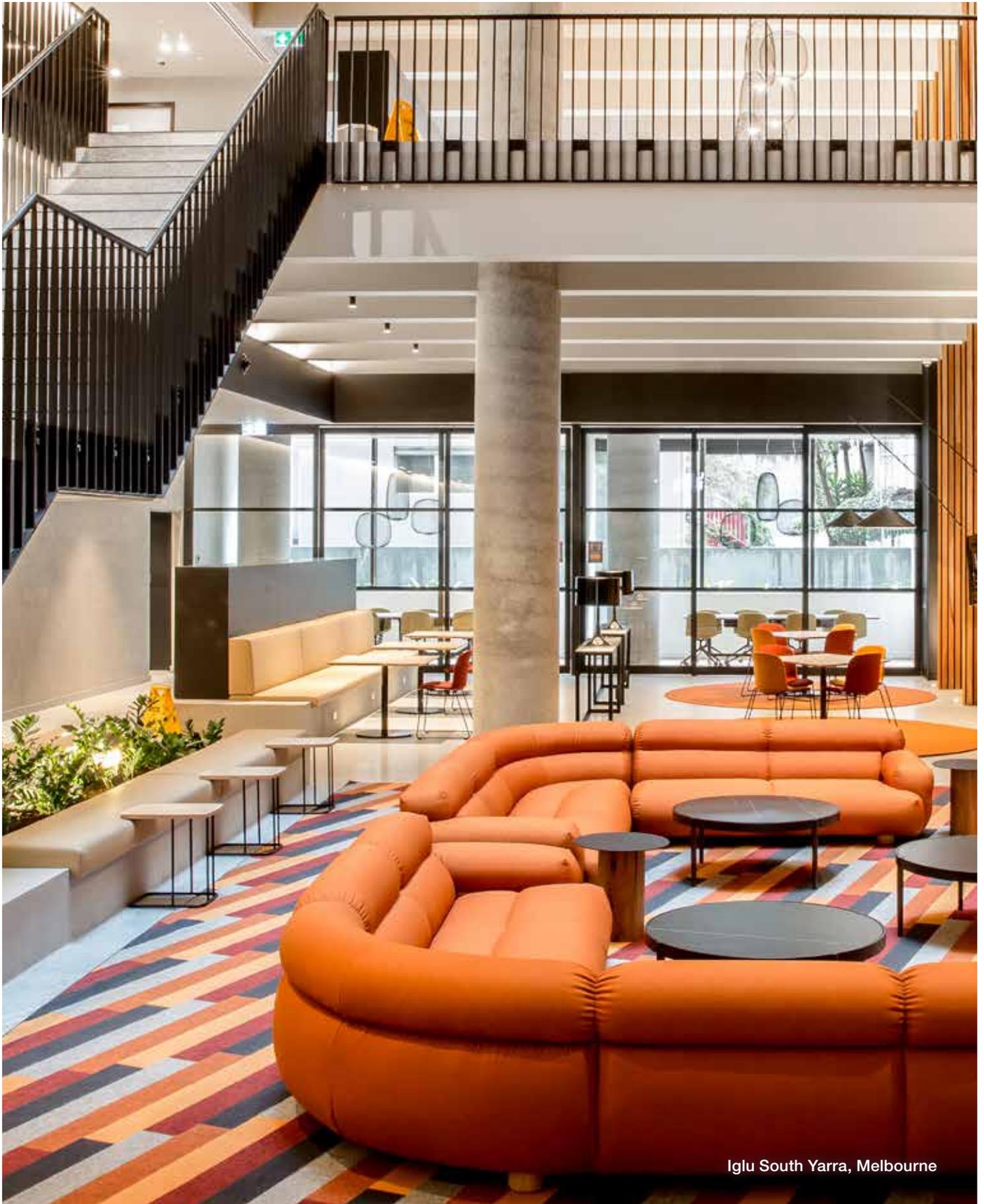


# Australian Student Accommodation 2020



Iglu South Yarra, Melbourne

- Despite challenging operating conditions with the onset of the COVID pandemic, the Australian student accommodation market is set to record over \$3bn in transaction volumes in 2020
- Sentiment remains strong for investment in 2021 with the anticipated easing of international border restrictions in Q2 allowing international students back into the country by Semester 2
- Rental levels look set to remain relatively static in 2021 and occupancy across off-campus properties is expected to stay in the range of 50 – 70%
- Scape has dominated the mergers and acquisitions in the last 18 months and now has a portfolio of over 12,500 beds and a pipeline of nearly 10,000 beds
- Opportunities exist for further supply of accommodation in all capital cities with diversification of product mix a key point of differentiation



## Australian PBSA to Enter the Third Stage of Evolution

Investor interest and transaction volumes have continued to accelerate over the last 18 months. Despite cooling conditions following the COVID-19 pandemic, Savills forecast an improving market heading into 2021.

The *First Stage* of growth in the private sector market (pre-2010) was predominantly residential Build-To-Sell (BTS) apartment projects with limited aspects of purpose built design, held in one line, or sold as individual strata units, run by third party operators. This offered diversification to students away from University and College controlled accommodation which historically had prevailed.

From 2010 onwards the *Second Stage* commenced. National and global investor / operators moved into the market and began to deliver institutional grade assets of scale, coupled with enhanced levels of service. New capital was attracted to the market by the imbalance of supply and demand, strong growth in international students and attractive returns compared to other real estate asset classes in Australia, and more established student accommodation markets globally. Moving into 2019 the first portfolios were offered to the market and as widely anticipated, yields were driven down as transactions and liquidity increased. Scape has dominated the market consolidating the Atira and Urbanest Platforms.

2020 began with record demand for operational PBSA, most schemes being booked out or nearing capacity. The closure of the international border in March had a significant impact on the ability of international students to arrive in Australia - most affected were Chinese students. Consequently, occupancy levels averaged 50 – 70% through Semesters 1 and 2.

The border remaining closed is expected to impact international student arrivals towards the start of Semester 1 2021. Demand for PBSA is expected to be supplemented by domestic students who are unable to study abroad and instead will remain in Australia.

COVID has accelerated a number of trends which Savills have identified as the pivot towards a *Third Stage* of the market emerging in 2021, which is anticipated to include diversification of product mix and targeted growth into second tier markets. Students are being offered a wider range of tenancy periods and operators are more focussed on physical and mental well-being with support in both areas increasing. ESG and sustainable investment will also be high priorities for the vast majority of investors in the sector.

In the short to medium term Savills expects University participation (on and off campus) will grow, driven by lower Federal Government funding for new facilities including on-campus accommodation. This is anticipated to create more opportunity for private sector participation in partnership with Higher Education Institutions and a wider acceptance of off-campus PBSA leading to more long-term occupancy agreements.

Once the international border reopens, we anticipate an increasing number of international students will be attracted to study onshore in Australia, with the Higher Education sector expected to gain market share from key competitors such as the UK and US. From 2022 we anticipate a return to strong levels of occupancy in operational accommodation. Investor sentiment has remained strong for forward commitment opportunities with projects programmed for 2023 and beyond openings. Significant numbers of global investors are recognising the value offered by a sector with strong underlying fundamentals.



Wee Hur / Y Suites A'Beckett, Melbourne



## A Focus on the Key Markets

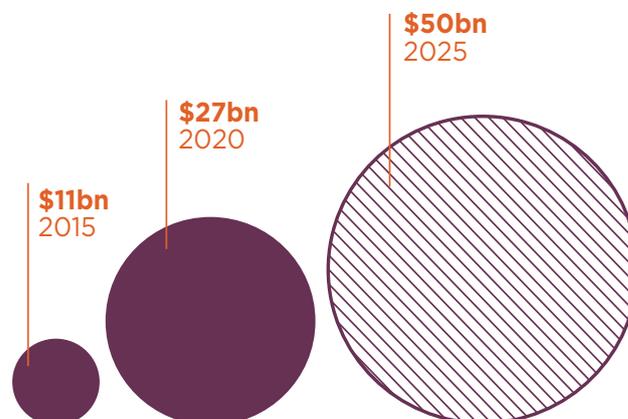
- **Sydney** – land price remains high and demand for competing uses continues to make PBSA feasibility challenging. Proposed changes to planning regulations will potentially further restrict the near-term delivery pipeline. Savills anticipates increasing supply in mixed use projects alongside Co-living and Multifamily (Build-to-Rent).
- **Melbourne** – the recent surge in delivery of new accommodation over the last three years has not kept up with the increasing student population and implied demand for off-campus accommodation. Development sites remain plentiful; however, developers are expecting to focus on prime locations and to also focus on mixed-use development.
- **Brisbane** – following a large expansion in supply over the last five years and a period of stabilising occupancy pre-COVID, investor sentiment is improving, and we expect a fresh focus on new development will occur. We anticipate that these developments will be targeted towards prime sites in immediate proximity to Universities.
- **Adelaide** – several new projects have been delivered in the last three years and more supply is currently under construction. Uptake for new accommodation has been solid, but rental affordability continues to challenge the feasibility of new projects.
- **Perth** – delivery of new accommodation in recent years has been limited, but recent announcements confirming two universities moving into the CBD from 2025 is expected to act as a catalyst for further supply.

### Student Accommodation Sector to Double in Value in the Next five Years

From 2015 to 2020 the delivery of new purpose built student accommodation (PBSA) accelerated across several capital cities, with a strong focus on Brisbane (23% of new beds) and Melbourne (45% of new beds). Sydney's supply of new accommodation has been constrained by high barriers to entry including land values and the planning system.

Increasing supply coupled with lower yields and higher values has helped contribute to the estimated total value of the sector more than doubling in the last five years to \$27bn. Looking forward to 2025 Savills is forecasting the value of the Australian student accommodation sector to nearly double again, reaching \$50bn.

### Total Value of the Sector



Source: Savills

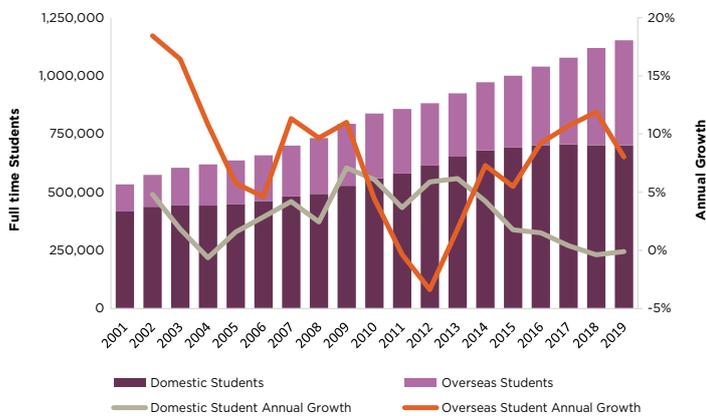
# Mobility Driving Enrolments

**For the past 18 years, or since the time series began in 2001, full time University students in Australia have grown year on year.**

Initially domestic population growth and rising participation rates were the major contributors to enrolment growth. The domestic cohort had plateaued over recent years, however, domestic applications for undergraduate courses increased by 0.9% for the 2020 academic year, following falls of 1.3% in 2019 and 2.6% in 2018.

As the majority of Universities return to face-to-face on campus learning for the upcoming academic year, it is widely expected that the COVID-19 recession will lead to even more Australians applying for University in 2021. The Federal Government has taken action to meet anticipated demand by creating up to 30,000 additional places for Australian students.

## University Enrolment Growth

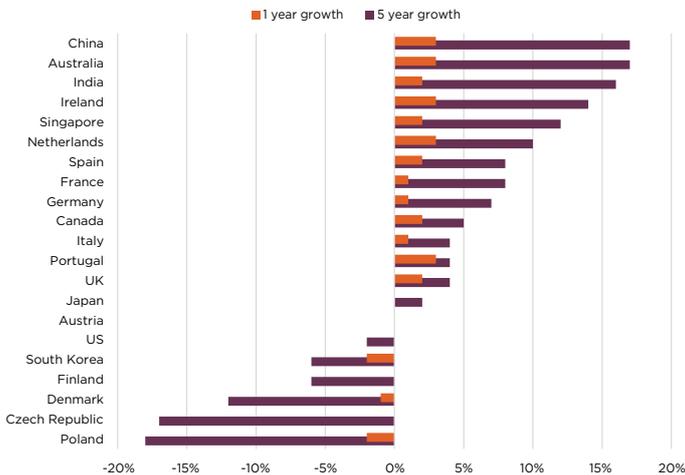


Source: Savills, Department of Education, Skills and Employment

For the second phase of this almost two-decade period, growth has been powered by international students. In recent years, students have been moving around the world more than ever before. In 2017, over 5 million students studied abroad, according to figures from UNESCO.

University degrees from English-speaking countries are highly desirable for international students and so Anglophone markets tend to be the most attractive destinations. The US is the largest inbound market for international students, followed by the UK. Australia, placed third, has seen fast growth in recent years, benefiting from its proximity to major source markets such as China and boasting attractive post-study employment rights. The latest statistics reflecting data from before the COVID-19 pandemic, shows that international student enrolment in Australia increased by 21% between 2017 and 2019, compared with 10% in the UK (between the 2016/17 and 2018/2019 academic year).

## Global Higher Education Enrolment



Source: Savills, Department of Education, Skills and Employment



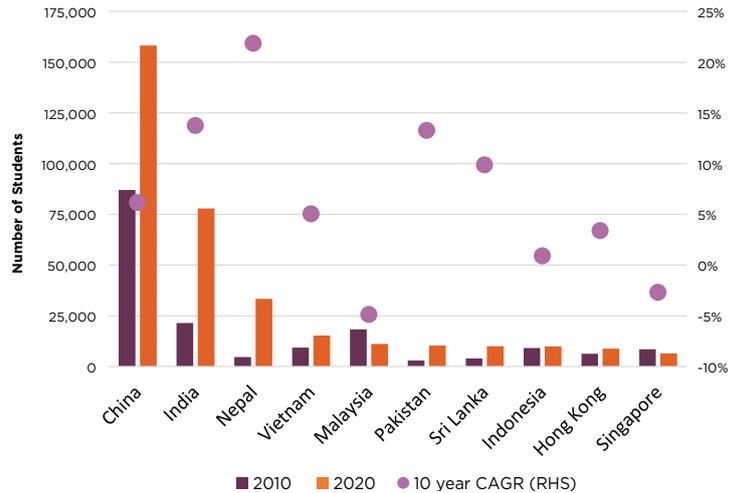


Iglu Redfern, Sydney

A large proportion of these globally mobile students are from Asia. China is the largest source market, but an increasing number come from India, which has seen faster growth in outbound students as the country’s wealth has increased.

In Australia, Indian University students have grown by 14% per annum over the past 10 years. The number of Indian students now enrolled in Australia is almost equal to the number of Chinese students enrolled in Australia a decade ago.

### International Enrolment Growth in Australia



Source: Savills, Department of Education, Skills and Employment

Greater international student mobility has gone hand-in-hand with a growing PBSA market. International students have contributed significantly to the success of this sector. Unfamiliar with local housing markets and often possessing greater budgets than domestic students, they have acted as an important and growing demand base.

## COVID Impact

The COVID pandemic has brought near-term challenges for the University and PBSA sector. International students have borne the brunt of the disruption from travel restrictions imposed in March 2020.

In addition to a leakage of students throughout the year repatriating back to home nations, at least 74,421 Higher Education students enrolled on courses were outside of Australia, as at mid-September 2020, according to the Department of Home Affairs’ student visa location data. These students form 25% of all international students, Chinese students account for 73% of these students (54,391).

The real impact on student numbers moving forward will not be known for some time. Early indicators suggest there is likely to be a moderate fall in international onshore enrolments for Semester 1 2021 given the ongoing travel and social restrictions.

# Expanding Supply Pipeline

**There are now 109,000 beds across the Australian student accommodation market, 84% of all beds are located across the eight Capital Cities. 2020 saw the lowest level of new completions in over a decade with 1,025 new beds entering the market following a record year of development in 2019.**

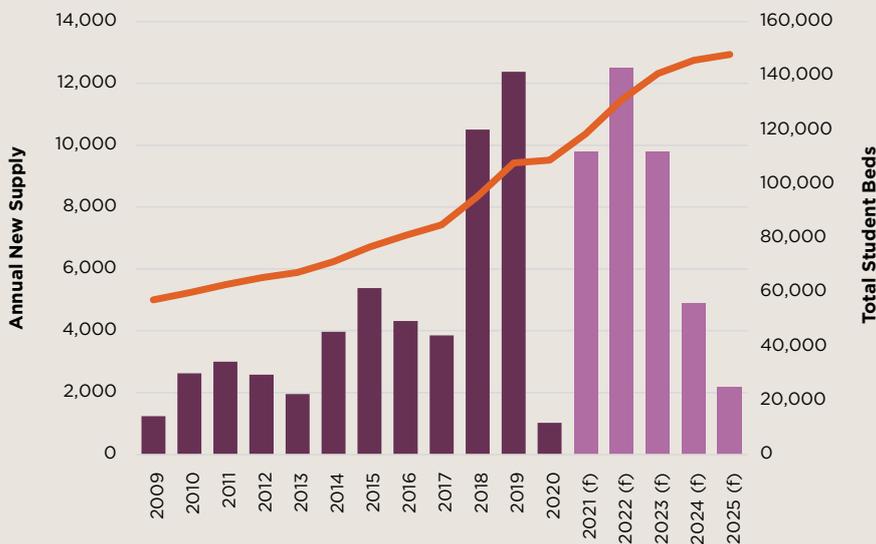
In anticipation of improved trading outcomes, a number of schemes delayed their openings until Semester 1 2021, boosting anticipated 2021 delivery levels. As it currently stands there are over 13,200 student

accommodation beds under construction. 2021 is on track to see 9,775 new beds enter the market.

Development activity has increased throughout the year and the appetite for well-located student accommodation development sites has become even more aggressive across Sydney and Melbourne, highlighting the belief in the long-term fundamentals of the sector.

Savills are tracking over 33,000 beds which could be developed over the next five years (to the end of 2025), 12% more beds than were delivered during the previous five years (2016 - 2020). Melbourne and Sydney remain the most active development markets, accounting for 57% of the future supply pipeline.

## New Supply of Student Accommodation



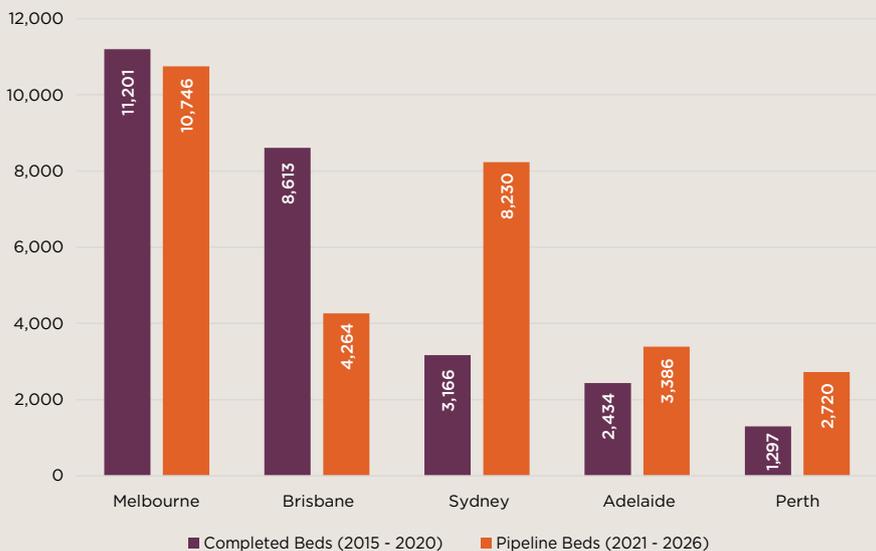
Source: Savills

## Five Year Supply



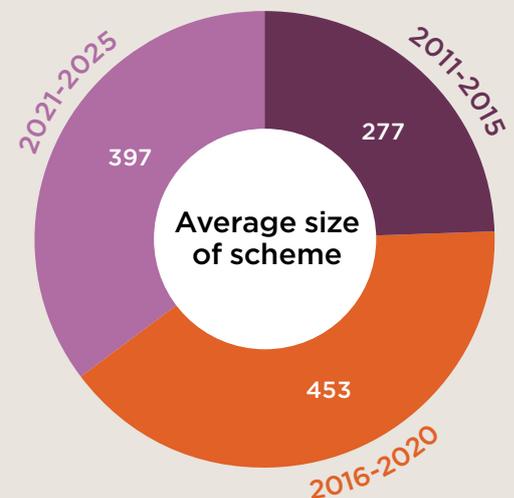
Source: Savills

## Supply By Location



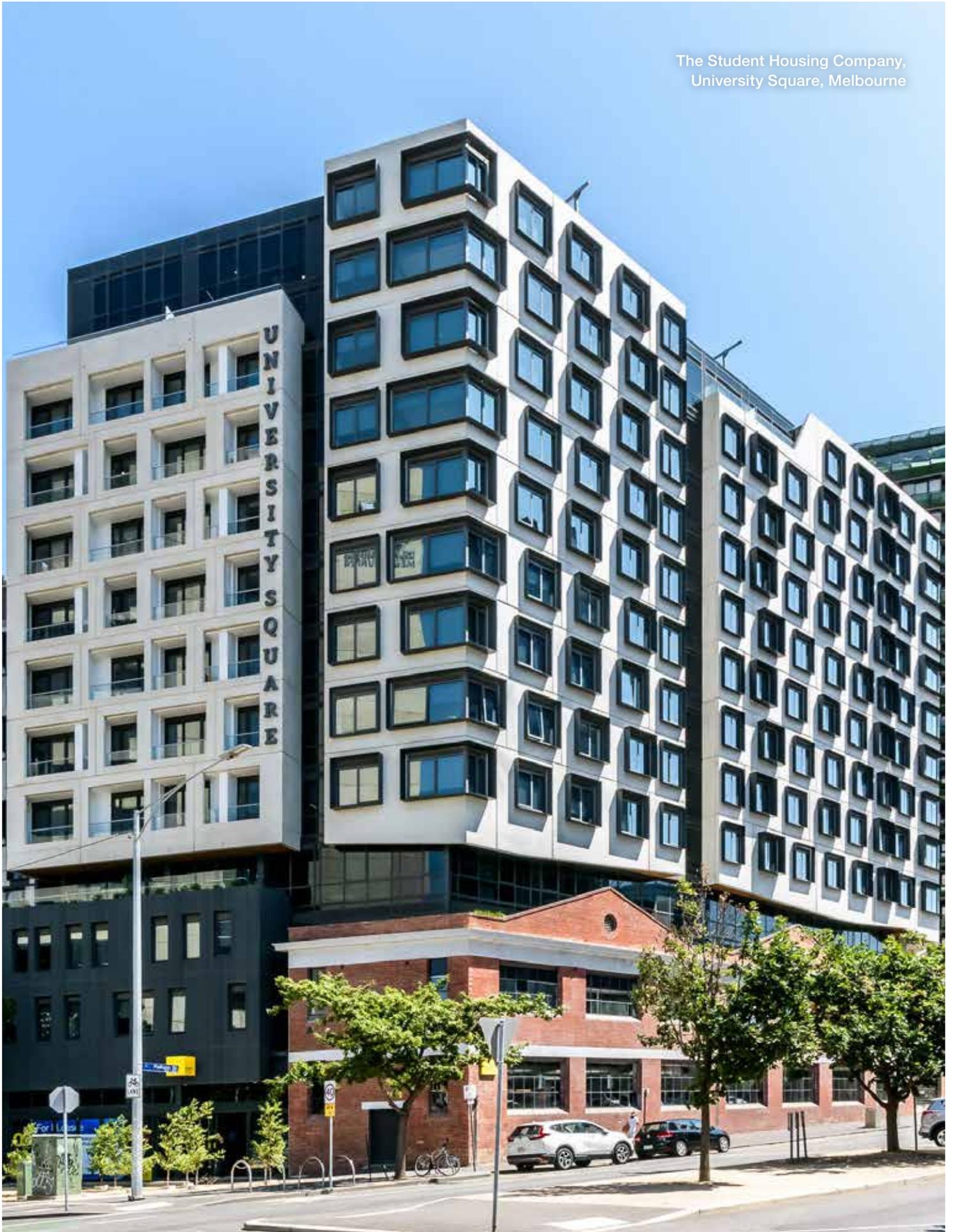
Source: Savills

## Size of New Developments (5 Year Period)



Source: Savills

The Student Housing Company,  
University Square, Melbourne



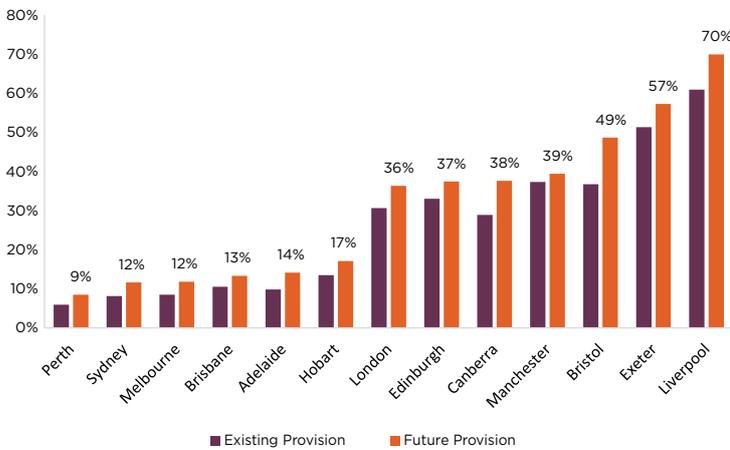
# Where Students Live

The provision of student accommodation beds across the Australian Greater Capital Cities remains substantially lower than global benchmark cities. As an example, 36% of all full-time students in London have access to a student accommodation bed, that figure is just 8% in Sydney.

When comparing markets, one difference between the Australian and UK market is the propensity of domestic students to move away from home for University education – and therefore demanding accommodation.

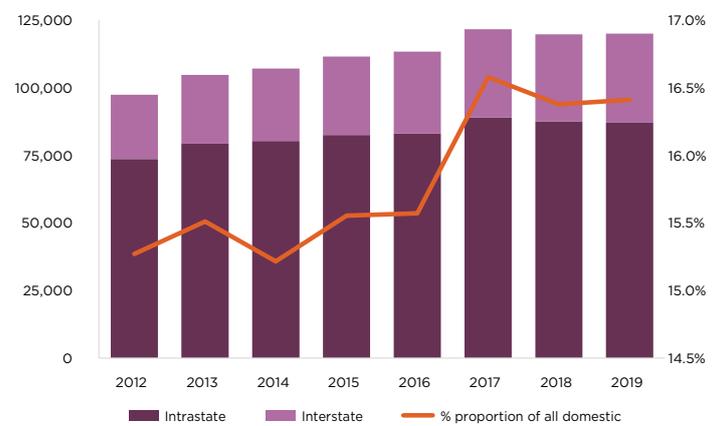
Historically, cultural drivers and specialisation of course offerings from UK universities has led to much higher rates of domestic students leaving home and travelling to attend University studies, compared with Australia, thus the requirement for higher rates of supply. Albeit not a diminutive number, 120,000 domestic students live away from home during term time, up 23,000 since 2012. As preferences and lifestyle choices evolve this figure is likely to increase adding to the demand catchment for providers of student accommodation in Australia.

## Student Accommodation Provision Rate



Source: Savills, Department of Education, Skills and Employment, HESA  
The chart above provides a summary of the existing supply of PBSA (navy bars) and the proposed development pipeline (sky blue bars) against full-time student numbers, with student numbers remaining static, the cities are sorted by the total provision of accommodation including pipeline

## Domestic Student Mobility



Source: Savills, Department of Education, Skills and Employment

The following analysis provides a snapshot of the current population of full-time students in the greater statistical areas of Australia’s main capital cities measured against the number of student accommodation beds.

The analysis focuses on the provision of student accommodation by both the universities and the commercial providers. Students who are not living in professionally provided accommodation, are classified as either renting in the private sector, or living in family associated accommodation.

### Key to table



Full Time Students



Commercial Accommodation



University Accommodation



Students renting privately or living at home



Source: Savills, Department of Education, Skills and Employment

## Top Ten Providers

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 at the start of Semester 2 2020.

The Top 10 Owners currently control a total of 39,139 beds across 83 properties at an average size of 472 beds. A further 39 properties are planned by the Top 10 totalling a further 20,455 beds at an average size of 524 beds. Once the pipeline is complete the number of beds owned by those currently in the Top 10 will be 59,594, illustrating an appetite to increase exposure to Australian student accommodation.

### Top 10 Owners of Student Accommodation by Existing and Development Pipeline

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	24	12,675	18	9,475	42	22,150
AMP Capital	12	5,119	2	1,196	14	6,315
Iglu	9	3,814	7	2,288	16	6,102
Wee Hur	2	2,350	5	3,259	7	5,609
Cedar Pacific	4	2,311	4	2,893	8	5,204
CLV	9	4,719	0	0	9	4,719
HRL Morrison	7	2,694	0	0	7	2,694
Student One	3	2,396	0	0	3	2,396
DIF Capital Partners	10	1,808	1	421	11	2,229
GSA Group	3	1,253	2	923	5	2,176

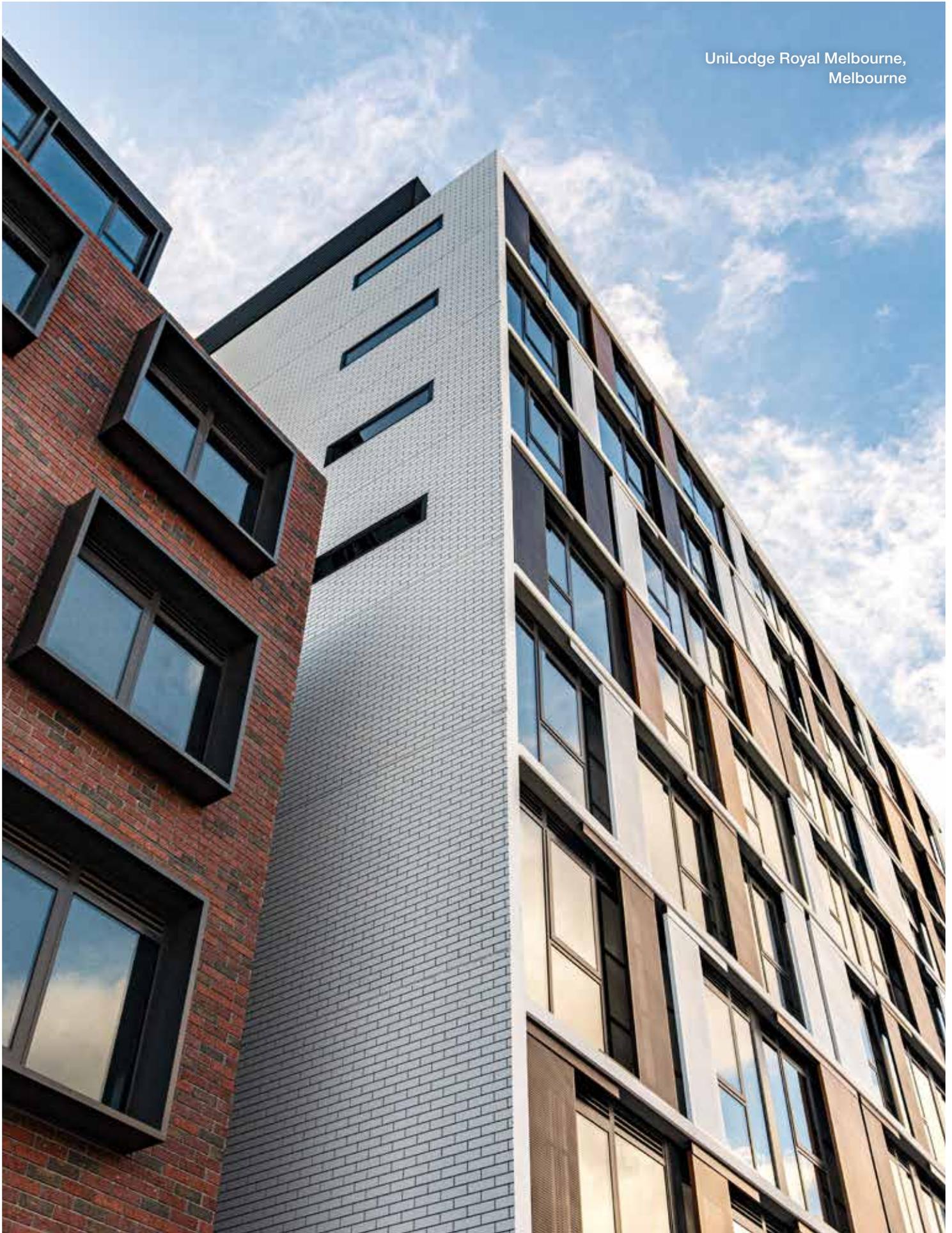
Source: Savills

The table below shows the Top 10 Operators of student accommodation ranked by total beds under management (including existing operational beds and development pipeline). The Top 10 Operators currently manage a combined 58,124 beds. Including properties to be developed the Top 10 Operators will manage 84,247 beds across 244 properties.

### Top 10 Operators of Student Accommodation by Existing and Development Pipeline

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	65	21,231	20	11,698	85	32,929
Scape	24	12,675	18	9,475	42	22,150
CLV	12	9,242	0	0	12	9,242
Iglu	9	3,814	7	2,288	16	6,102
SHA	53	2,750	16	1,152	69	3,902
HRL Morrison	7	2,694	0	0	7	2,694
The Student Housing Company	4	1,622	2	923	6	2,545
Student One	3	2,396	0	0	3	2,396
Journal Student Living	1	804	1	587	2	1,391
dwell	2	896	0	0	2	896

Source: Savills  
Scape includes the Urbanest and Atira Brands



UniLodge Royal Melbourne,  
Melbourne

# Investment

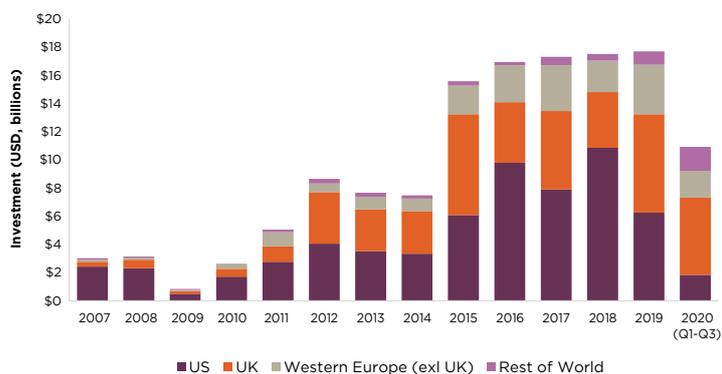
**Investors' focus on student accommodation has been growing over the past decade. Strong underlying fundamentals, stable income streams, and the desire to diversify portfolios have significantly increased investor appetite for these assets.**

The operational residential sector's fundamentals hold true in today's challenging macro environment. Students still require a place to live, and demographic trends and affordability constraints will continue to drive demand for rental accommodation. Total global investment into student accommodation reached US\$18bn in 2019, a new record.

Despite wider global uncertainty, a number of major deals have completed – several at such a large scale that national records were broken. There is no shortage of capital targeting operational student accommodation assets. The challenge (and opportunity), in Australia at least, is finding completed assets in which to invest.

Consolidation has been a key driver in the student accommodation sector in Australia, which has registered record investment volumes for 2020, forecast to total AUD\$3.1bn, an increase of 115% on 2019 levels. Scape has been the most active investor acquiring the Urbanest portfolio for a fee reportedly over AUD\$2.1bn in the biggest deal of the year.

## Global Investment into Student Accommodation

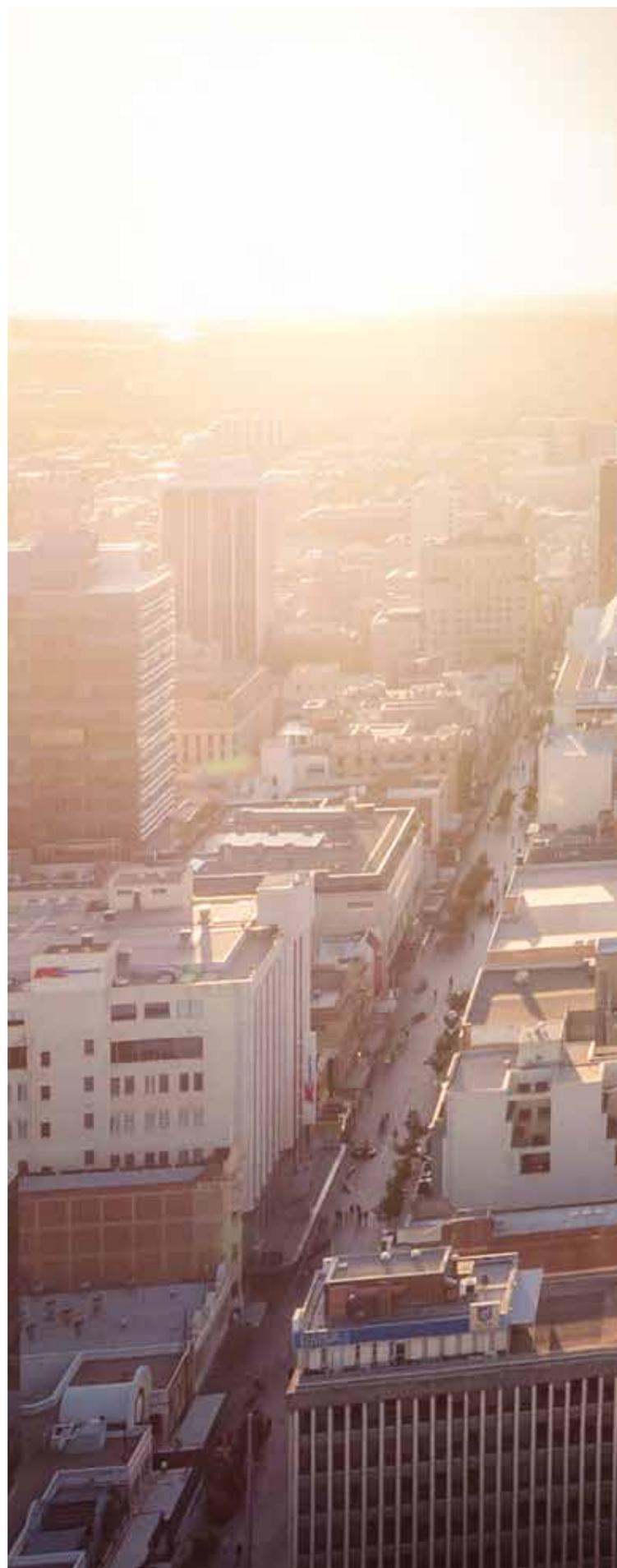


Source: Savills, RCA

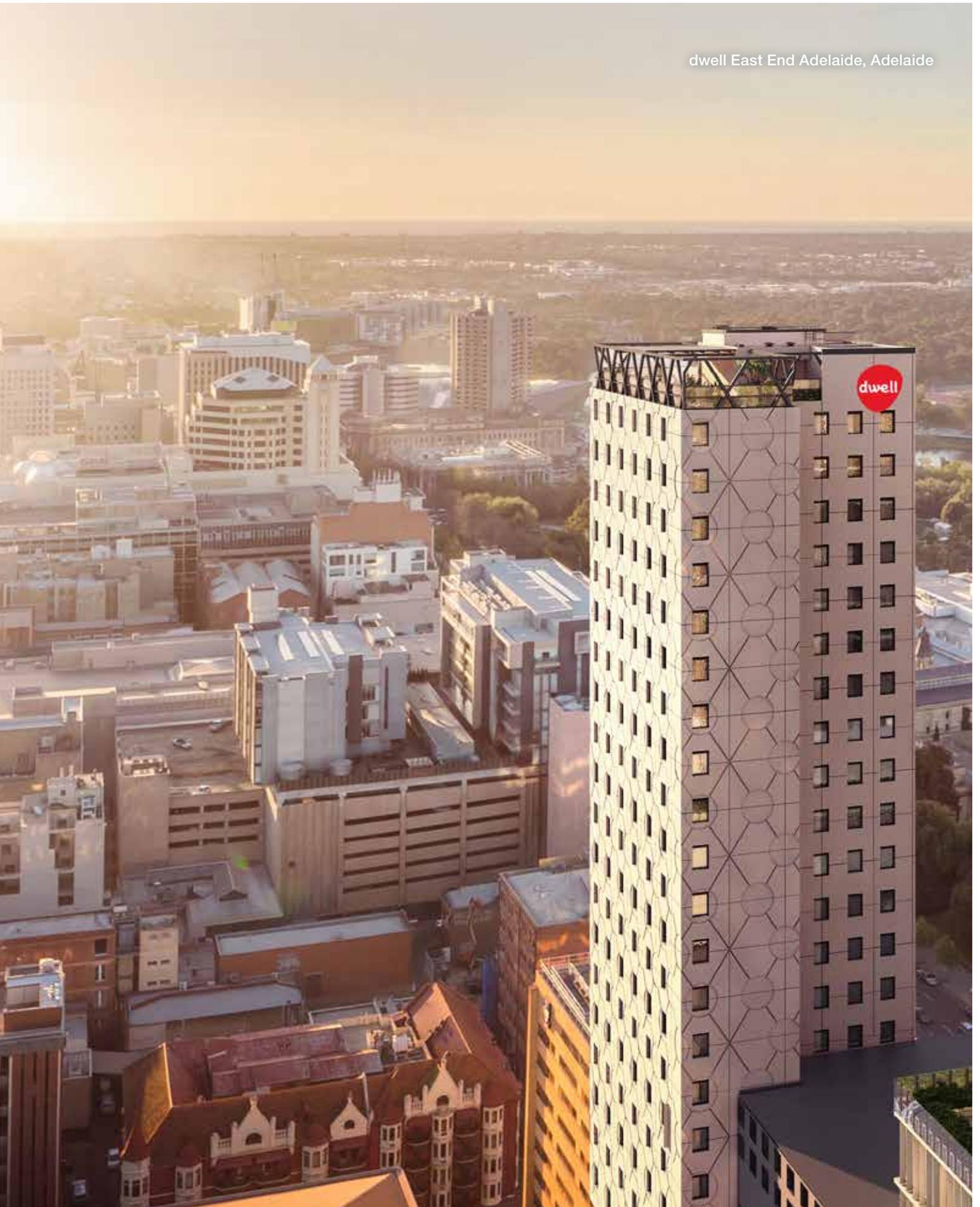
## Australia Transaction Volumes

Year	\$ AUD Millions	No. of Beds
2012	0	0
2013	\$43	403
2014	\$530	1,363
2015	\$87	877
2016	\$557	3,993
2017	\$475	1,321
2018	\$440	1,554
2019	\$1,446	8,025
2020F	\$3,112	11,160

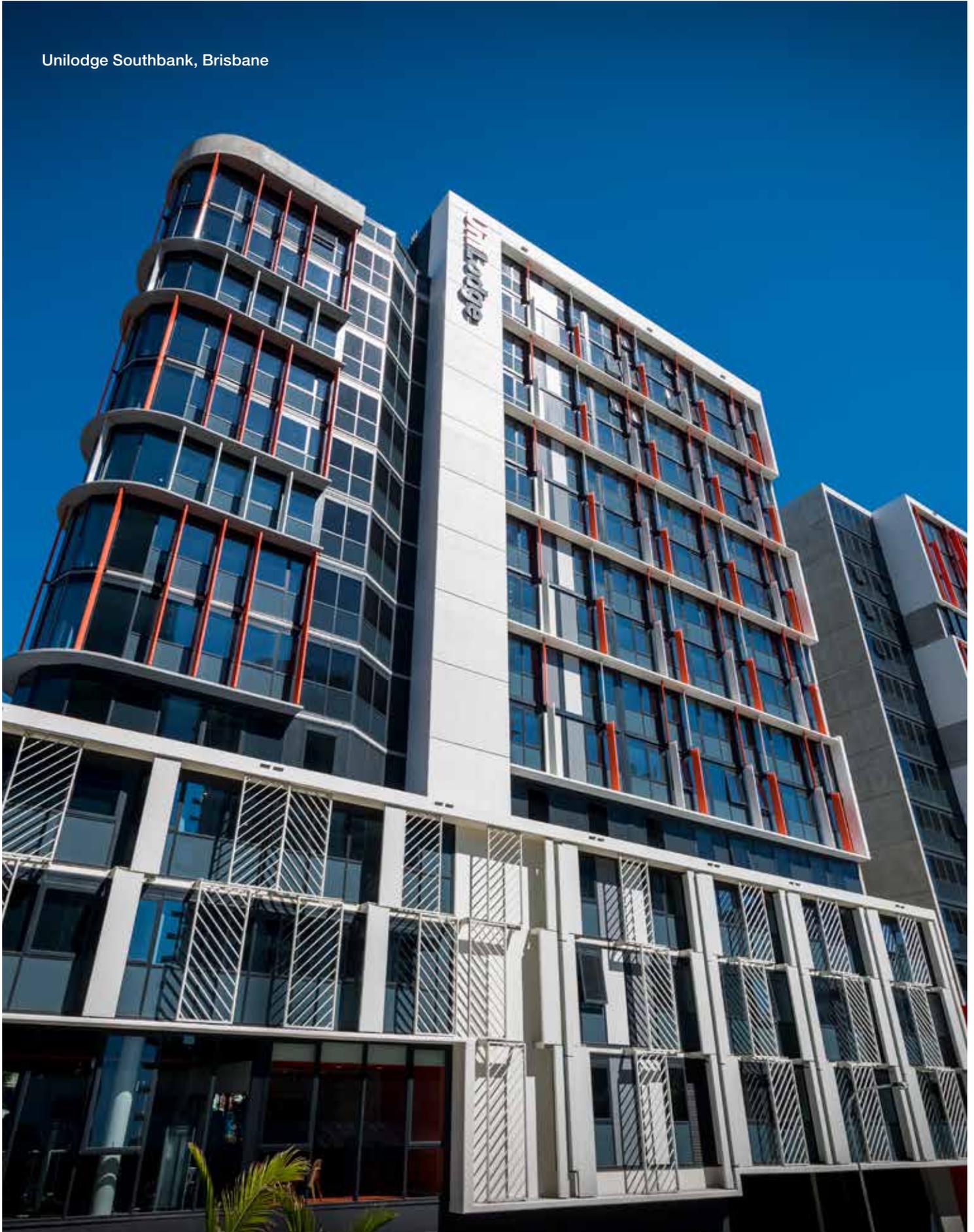
Source: Savills, RCA



dwell East End Adelaide, Adelaide



Unilodge Southbank, Brisbane



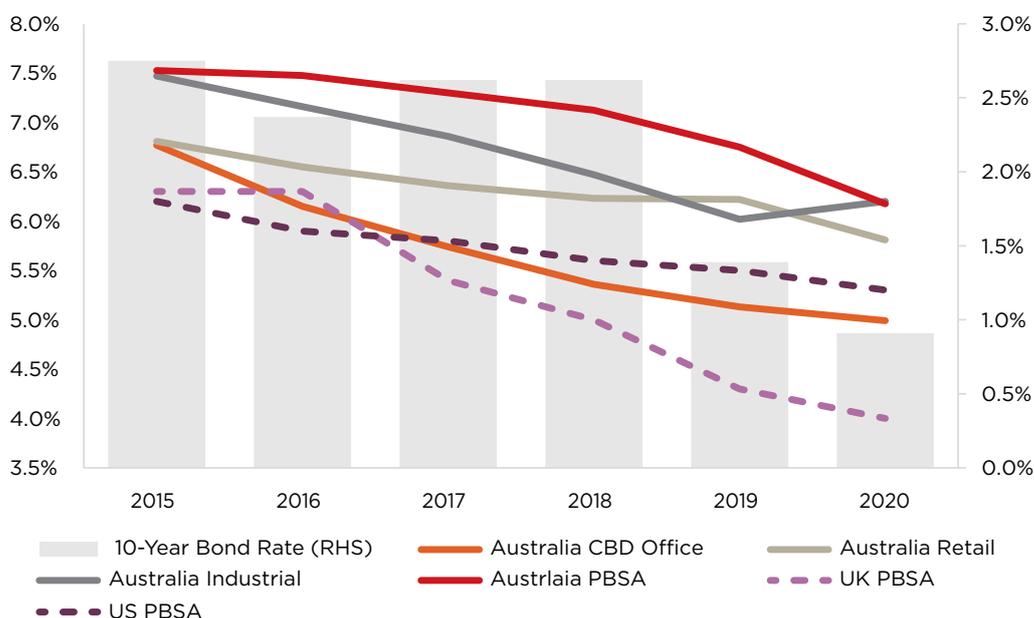
## Yield Trends

**For student accommodation, yields have generally moved in recent years as the operational residential asset class has matured.**

In Australia student accommodation yields are now stabilising in most markets, following a significant inward yield shift trend over the past five years and the increase in investment throughout 2019 and 2020.

Further yield compression in the coming year is likely to be more limited as the impact of COVID-19 subdues rental growth ability.

### Australia Student Accommodation Yields vs Benchmark Investments



Source: Savills, RCA, MSCI

### Australian Student Accommodation Yields by City

Location / Grade	Lower Range	Upper Range
Sydney - Prime	5.00%	5.50%
Sydney - Secondary	6.00%	6.50%
Melbourne - Prime	5.00%	5.50%
Melbourne - Secondary	6.50%	7.50%
Brisbane - Prime	7.00%	7.25%
Brisbane - Secondary	7.50%	8.00%
Other Capital City CBDs - Prime	6.50%	7.50%
Other Capital City CBDs - Secondary	8.00%	8.50%

Source: Savills

# Outlook: The View From Within

Luke Nolan | CEO and Founder | Student.com

As the Savills Report suggests January and February were record high months for our Australia and New Zealand business, so until the pandemic, Student.com were set to have one of our best years in operation.

When the borders were closed in February to China, our student accommodation booking platform still saw a large number of students willing to book. China and all source corridors were still willing to lock in accommodation provided borders reopen and face-to-face classes resumed from Semester 2. It was not until around June that a significant drop in offshore demand materialised.

Post the onset of the pandemic private studios have been the most sought-after room type in Australia. In contrast, before the pandemic, room type popularity was dependent on destination and price point. Since the pandemic hit regardless of price point or destination City studios or private room types have been the most highly sought product type.

In a normal year 25% of domestic year 12 students would take a gap year. With travel off the cards for 2021, a larger domestic cohort is enrolling and booking student accommodation for 2021. Lower Australian Tertiary Admission Rank's (ATAR) being accepted across various Universities will contribute to the growth in the domestic market.

When Australia's borders closed, and universities moved to online learning, political ties between China and the US were fragile. At this point accommodation agents pushed countries like the UK and the rest of Europe guaranteeing students would receive visas and face-to-face learning.

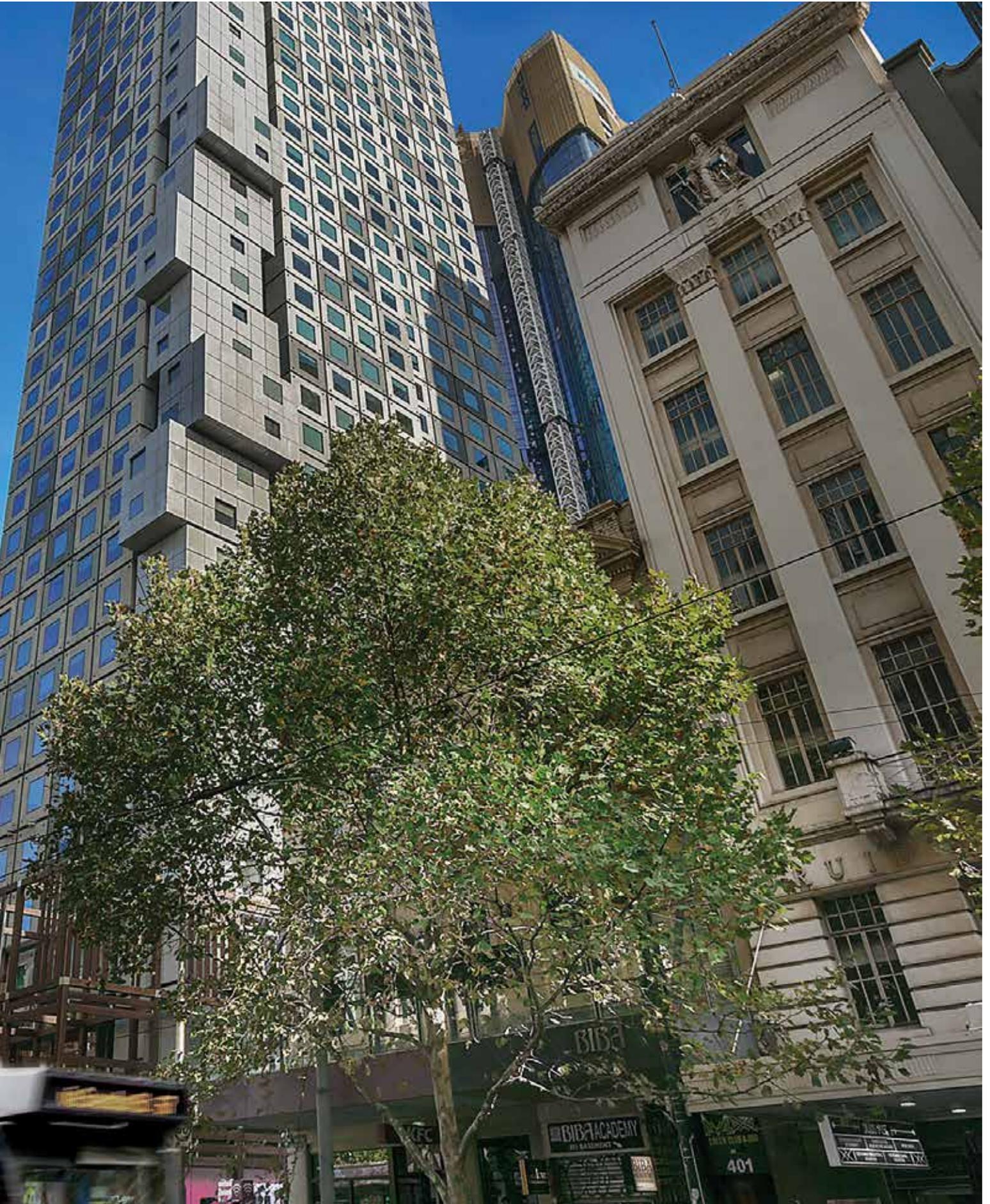
Now with the second and third waves hitting the UK and the rest of Europe, parents and students feel misled as these countries no longer feel safe or can offer the traditional University experience. Feedback from across the Student.com agent network is that as levels of new COVID cases reach record highs across the Northern Hemisphere, parents and students appreciate the safety instilled by the Australian Federal and State Governments, which has built enormous trust in their ability to aggressively suppress COVID and provide a safe living environment. This has placed Australia in an excellent position to increase market share of globally mobile students when borders reopen to international students and face-to-face classes return.



**Luke Nolan**  
CEO and Founder  
Student.com



Scape Swanston, Melbourne





## Savills Team

Please contact us for further information

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