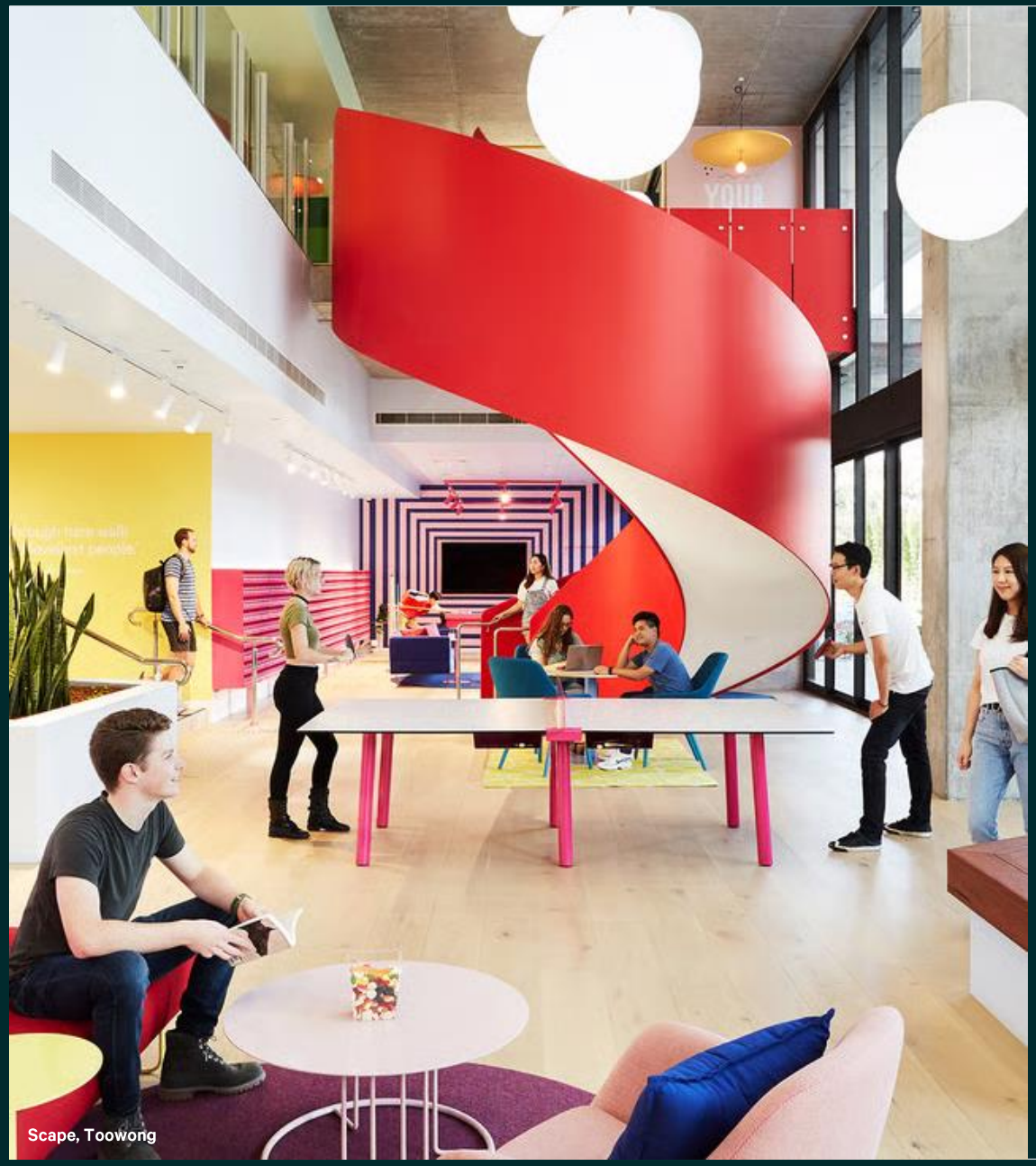
Intelligent Investment

Accommodating the growth in students

REPORT

Demand, supply and pricing for Australian PBSA market

CBRE RESEARCH
AUGUST 2023


Scape, Toowong

Contents

Market size
Australian universities service ~1.2m domestic and 0.6m international students. The student accommodation market comprises ~60,000 beds, implying that just 6% of students have the opportunity to live on/close to campus in purpose built accommodation. New Zealand market comprises 0.18m students, including 24k international students.

Recovery
We estimate that the international student markets recovered by Q1 2023, with just a 6% shortfall to pre-COVID levels.

Supply and pipeline
Purpose Built Student Accommodation (PBSA) represents ~60% of student accommodation. The five largest operators account for over 80% of current stock. CBRE estimates that an incremental 8,000 rooms could be delivered over 2023-26, representing a 7% uplift to the current volumes of rooms. However, this is unlikely to be sufficient to meet demand as vacancy in alternative inner-city apartment markets is likely to remain sub 2%.

Rent outlook
Median rents for student accommodation studios grew at CAGR 5.5% from $406 per week to $530 per week over 2018-2023 across Brisbane, Melbourne and Sydney markets.
As at mid 2023, student accommodation rents are at a 15% premium for two-bedroom apartments in the same precinct, per CBRE research analysis. This is understandable as PBSA apartments are fully-furnished and include utilities, social events and pastoral care. CBRE forecast rent growth in inner city living sectors will continue to outperform inflation, with private rental market vacancy likely to remain sub 1%.

Cap rates
Rent growth and resilient occupancy has helped to cushion yields in the face of rising financing costs. While yields have expanded by circa 30 bps in the US and UK by mid 2023 off their mid 2022 lows, the sector has remained exceptionally resilient.

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International students

Australia had 591,000 international students studying across a variety of higher education, VET and English language programmes in early 2023.

Australian universities are well regarded globally, with seven universities ranked in the Top 100 globally by QS University rankings 2024:

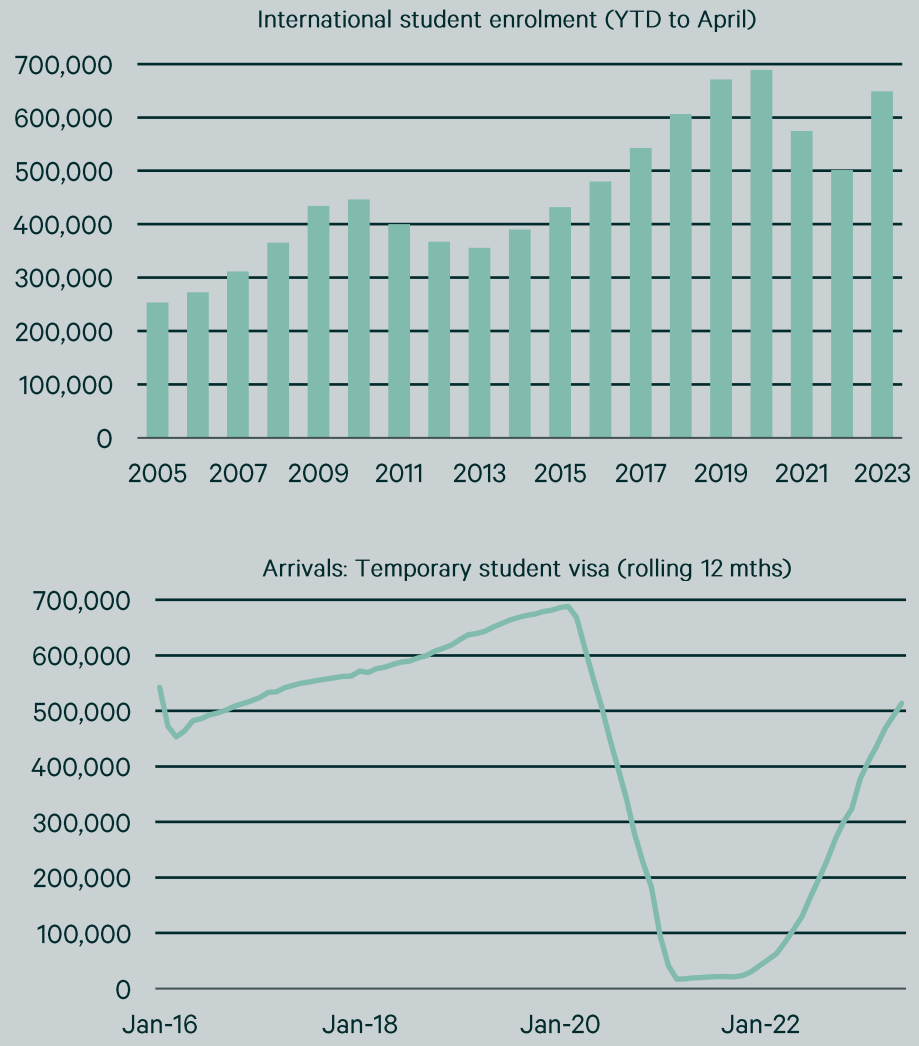
- 14 — **University of Melbourne** (students 52,000)
- 19 — **University of Sydney** (students 54,000)
- 19 — **University of NSW** (students 52,000)
- 34 — **Australian National University** (students 21,000)
- 42 — **Monash University** (students 64,000)
- 43 — **University of Queensland** (students 49,000)
- 72 — **University of Western Australia** (students 26,000)

In 2022, enrolments started to recover after being down 25% on 2019/2020 levels. As at April 2023, enrolments are just 6% below their prior peak level.

Enrolments do not directly equate to accommodation demand as students may be enrolled in multiple courses or in some cases studying online. But we see this data providing us with insight on the trajectory of demand.

591,000 international students in Australia as at April 2023, with enrolments quickly catching up to peak 2019/20 levels.

Figure 1: Recovery in international student enrolment and arrivals



Source: ABS, Department of Education

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International student demand continues to grow and also diversify

As at May 2023, China (21%) and India (17%) were still the largest cohort markets for international students in Australia. Interestingly the student profile continues to diversify, with students from India, Nepal, Colombia, Philippines, Vietnam all recorded double digit growth in student numbers over the past decade.

Approximately 83% of students are residing on the core east coast markets of Sydney (39%), Melbourne (29%) and Brisbane (15%). Sydney is home to six universities and has campuses for 11 other universities. The Sydney market comprises 223,000 students, with University of NSW supporting a 25% international student cohort.

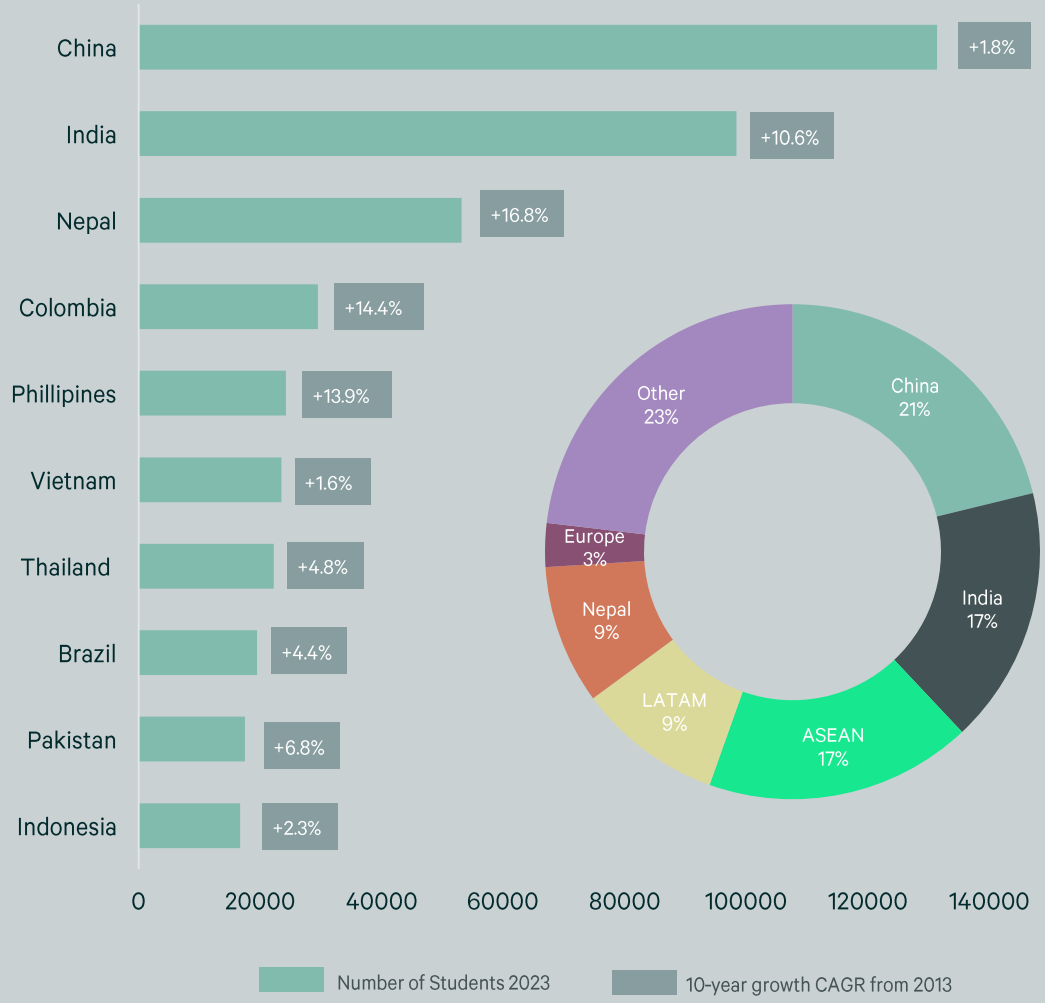
The Melbourne market comprises 334,000 university students (domestic and international), with RMIT and Monash supporting a 46% and 34% international cohort respectively. Relative to other cities in Australia, Melbourne based universities have a much larger share of international students.

The Brisbane market comprises 137,000 university students with University of Queensland supporting a 24% international student cohort.

2.5% of domestic students are estimated to reside in PBSA. There is an opportunity to capture the overflow demand of domestic students due to the rising number of students studying interstate and the diminishing supply of private rental sector accommodation.

China and India contributed half of all international enrolments in Australian institutions in 2032.

Figure 4: Changes in the top 10 International students nationalities 2023



Source: Department of Education

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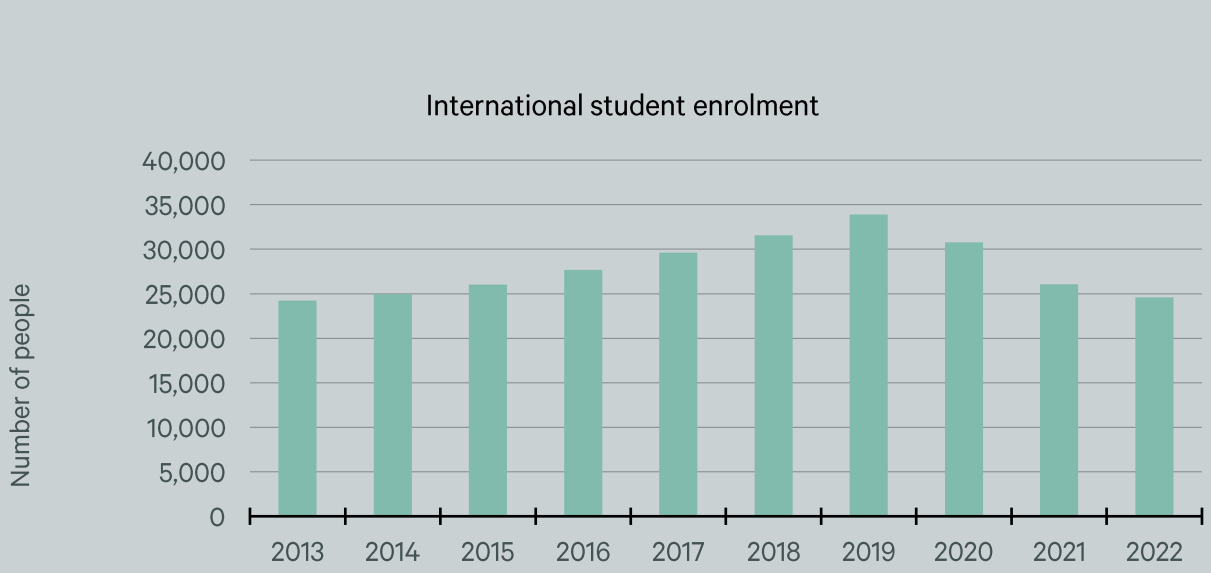
New Zealand, a competitor market

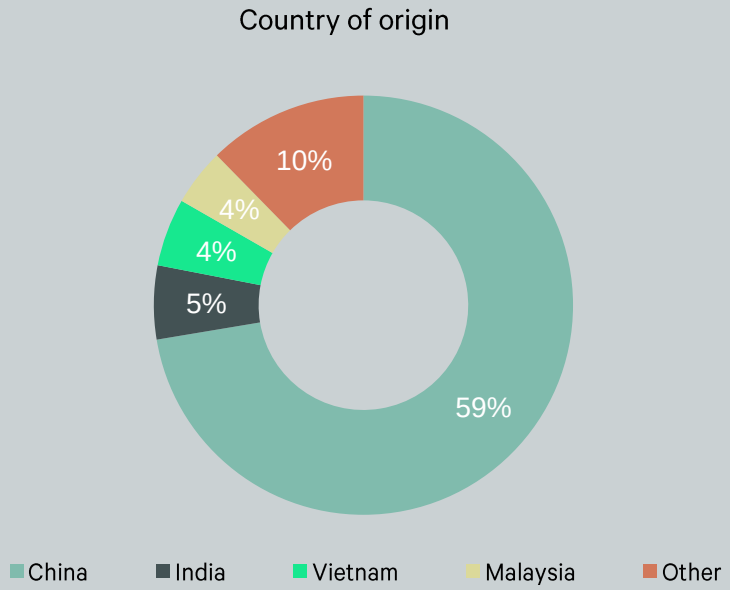
International student enrolments are starting to recover in New Zealand. In the three-month period (December 2022 to February 2023), the number of approved visas was around two-thirds of the number that was approved over the same period pre-pandemic (December 2019 to February 2020).

China continues to be New Zealand's largest source market based on student enrolments. Pent up demand and China's non-recognition of online study have pushed students toward in-person offshore study.

Auckland accounts for c40% of the university student population in New Zealand. The three largest universities by student numbers are University of Auckland, University of Otago and Massey University.

Figure 3: New Zealand international student enrolments and country of origin





Source: Educationcounts

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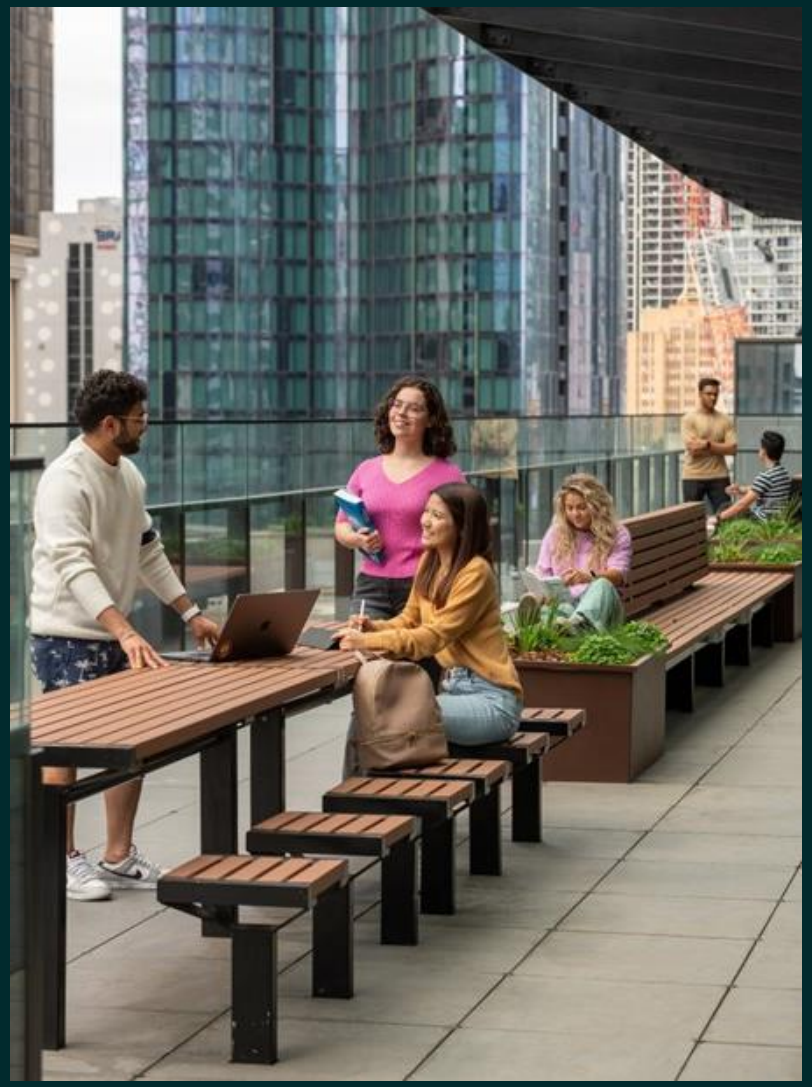
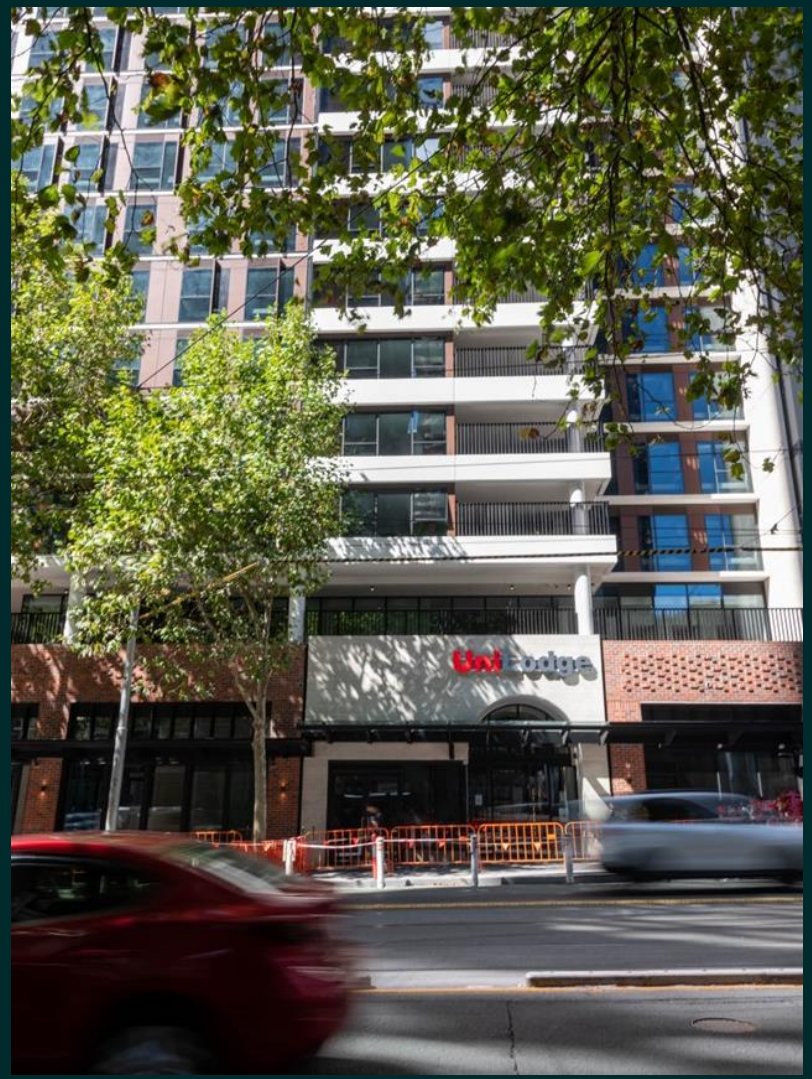
UniLodge, Central Melbourne





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Supply across Australia has grown, however, remains below global peers

The Australian market is increasingly dominated by Purpose Built Student Accommodation (PBSA), which complements an existing pool of Colleges and University owned/managed stock.

The supply of PBSA has increased significantly from c3,000 rooms in 2010 to c41,000 rooms by 2022. This partly reflects the growth in demand for Australian education by international students.

University owned or affiliated colleges primarily service domestic students. There are approximately 50 colleges across 15 universities servicing 18,000 students (source UCA).

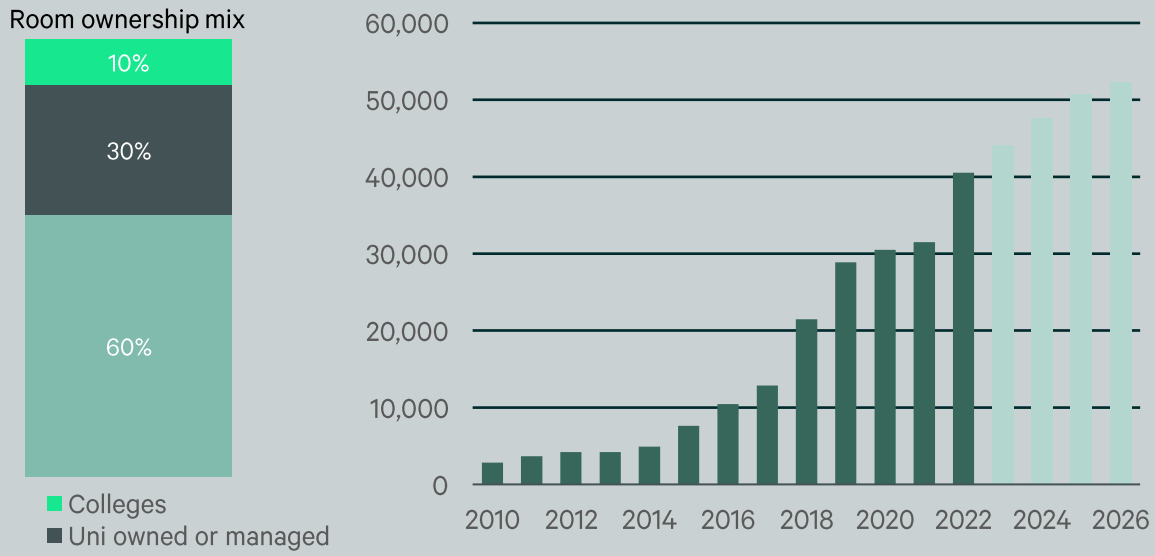
We anticipate new supply over 2023-2026 could amount to 8,000 additional rooms, representing a 7% uplift to student accommodation options. However, this is likely to be inadequate when compared to our global peer market penetration rates.

Figure 6: Key Market Differences

Undergraduate students	1.6m	1.65m	20m	2.9m	2.5m
Student accommodation beds	102k	750k	5.8m	240k	190k
International student ratio	31%	22%	5%	15%	15%
Penetration rate (beds/students)	6%	45%	29%	8%	8%

Source: Educationcounts

Figure 5: Type of accommodation and growth of PBSA



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Number and location of rooms

Melbourne comprises 36% of the national student accommodation room stock. This aligns with the larger share of university students and particularly the international student cohort.

Looking ahead, we estimate Sydney has the largest development pipeline. CBRE estimate that Sydney could account for nearly 50% of new room supply over 2023-26.

Recent new supply announcements include:

Sydney

- University of NSW and Iglu development for 1,066 beds across five buildings.
- Redfern development by Wee Hur for 411 student beds to service University of Sydney and UTS cohorts.

Brisbane

- Margaret Street development by Brookfield and Citiplan (Journal Student Living) for 935 beds, in close proximity to QUT.

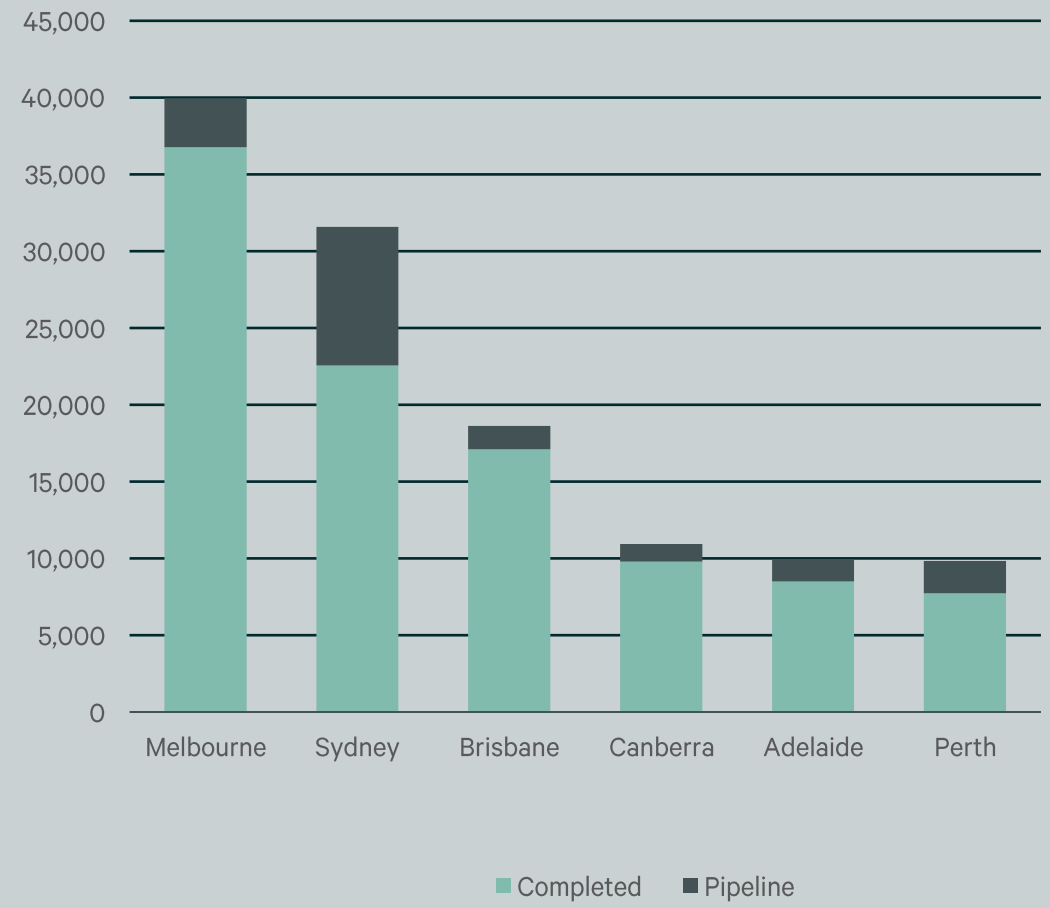
Gold Coast

- Bond University development for 646 beds.

Melbourne

- Carlton development by Brookfield and Citiplan (Journal Student Living) for 465 beds, in close proximity to the University of Melbourne.
- Carlton development by Scape for 300 beds at 130 Leicester Street.
- The Queen Victoria Markets proposed development for 1,100 beds across two towers in JV between Lendlease and Scape.

Figure 1: Recovery in international student enrolment and arrivals



Source: CBRE

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Leading service providers

The five largest student accommodation providers in Australia account for over 80% of industry capacity. Many of the operators bring a unique investment lens and value proposition for students.

UniLodge: Australia's largest student accommodation provider. The firm manages 36,000 beds across 105 facilities. Their portfolio across Australia and New Zealand includes over 10 lodges each in Adelaide, Brisbane, Canberra and Melbourne.

Scape: The portfolio comprises 16,000 beds in 32 buildings across Sydney, Melbourne, Brisbane and Adelaide. They also have 10 buildings in the pipeline which will bring the portfolio to 19,800 beds by 2027.

Campus Living Village: Their suite of residences are typically located on-campus and comprise 6,700 beds across 16 properties. The business operates across Sydney, Melbourne, Brisbane and Perth.

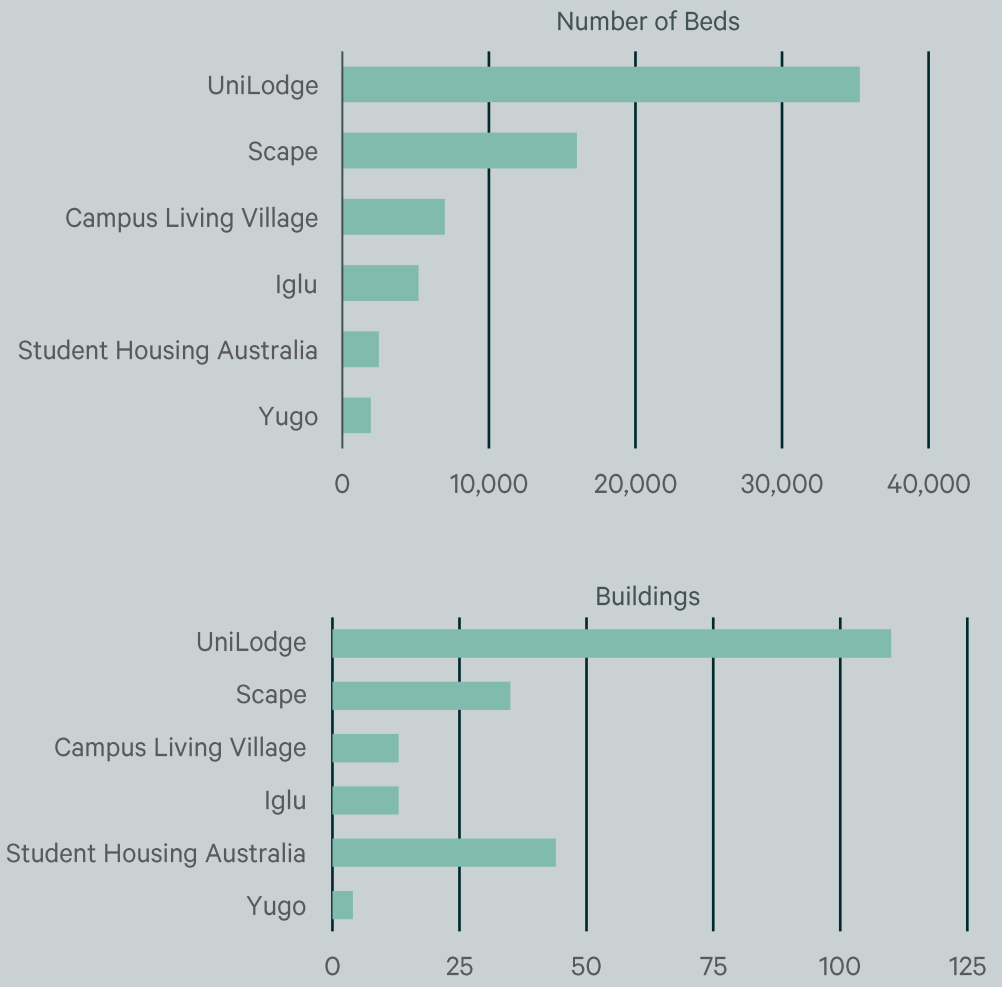
Iglu: They have 13 operational properties totalling 5,400 beds with a further 1,500 beds in the pipeline. Their residences are located across Brisbane, Melbourne and Sydney.

Yugo: They are a global student accommodation service provider, with an Australian portfolio of 1,900 beds in Adelaide, Melbourne and Perth.

Wee Hur: They have 4,000 beds with another 1,900 in the pipeline. Assets are located in Sydney, Canberra, Melbourne and Brisbane.

Student Housing Australia: They manage student accommodation, working with landlords in Melbourne. The portfolio comprises ~2,500 rooms across 45 buildings.

Figure 9: Student accommodation service providers in Australia, selection of Top 10



Source company websites, CBRE Research

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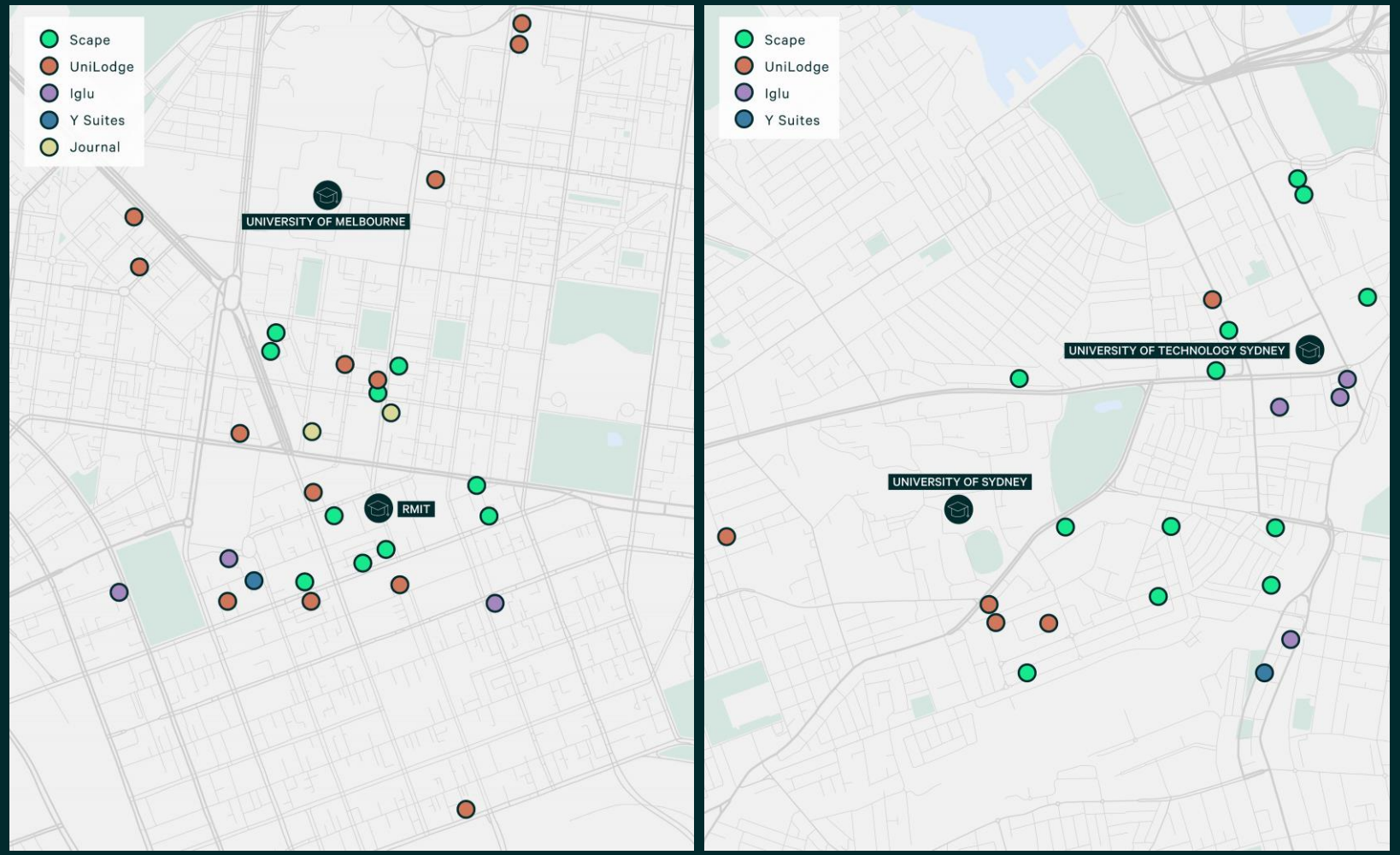
Proximity matters

Student accommodation facilities are typically in convenient locations to University campus or city centres. The current suite of properties are also in close proximity of each other, creating a vibrant environment for students who wish to study and socialise together.

Most interstate and international students do not have cars. So proximity to public transport and within walking distance of the University are key drawcards in choosing a residence.

Figure 10: University and PBSA locations in Sydney and Melbourne



Source: CBRE Research

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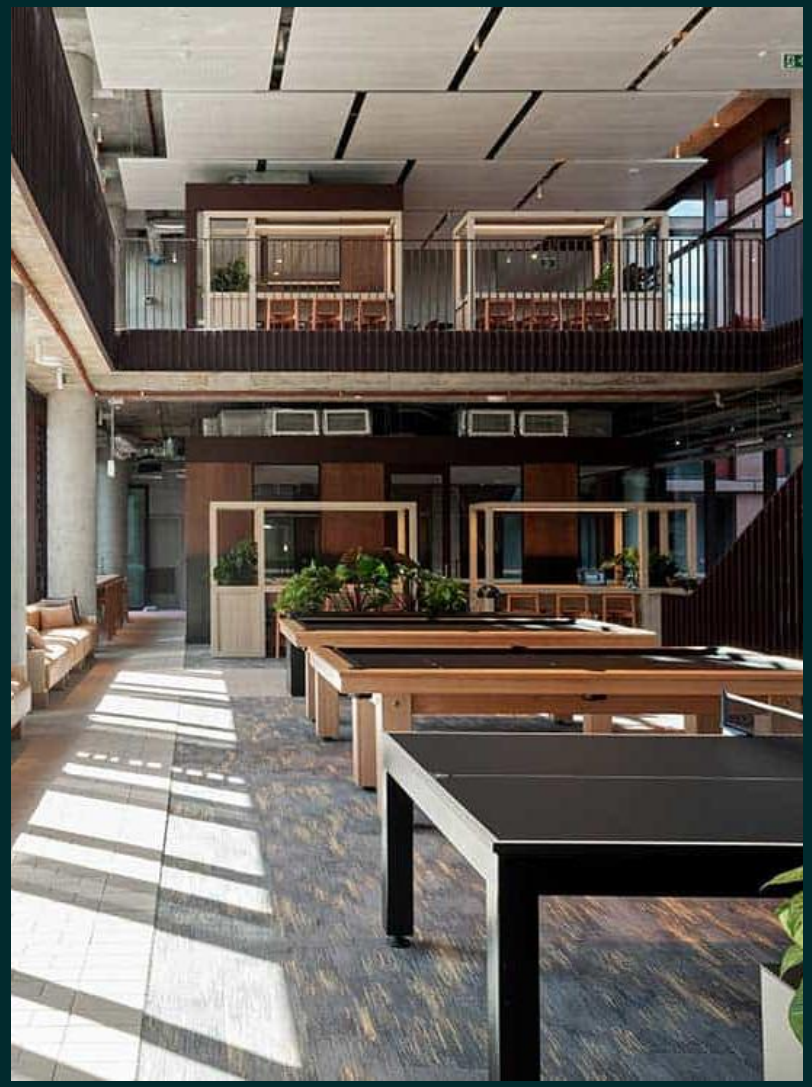
Iglu, Mascot



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Weekly rent options for student accommodation studios

Rent for student accommodation beds varies depending upon whether the offer is a premium studio or shared unit, with up to six attached bedrooms. Rents also vary depending upon the vintage of build and amenities on offer

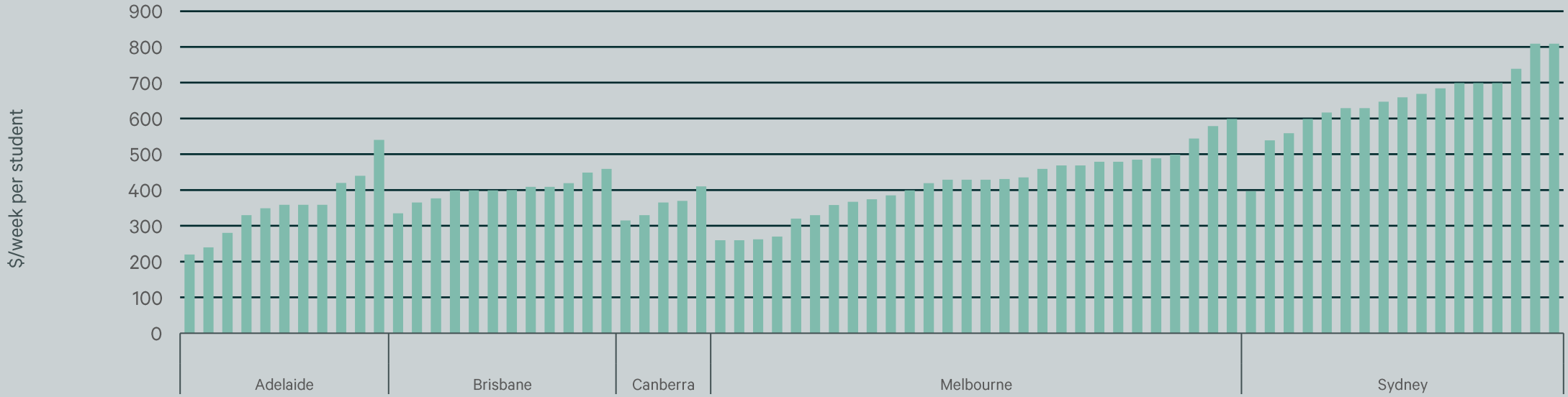
There are a number of accommodation options in Adelaide, Canberra and Brisbane at $300-$400 per week. In Melbourne, per student rent is typically $300-$500 per week. In Sydney, rents range from $550-$750 per week.

The range is not dissimilar to what we see in two-bedroom apartment markets where rents in the Sydney CBD are nearly double rates for Brisbane and Melbourne.

Dynamic pricing

Student accommodation operators typically use dynamic pricing models to optimise occupancy rates while dealing with shorter lease terms. So the rent during off-season can be materially different to rents during peak periods of enquiry.

Figure 11: Student accommodation rents across major campuses, per student per week



Source: CBRE Research analysis across 73 student accommodation buildings

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PBSA rents grow with newer additions

Student accommodation rents have increased substantially across the market. We looked at the median rent for a sample (n= 184) of student accommodation studios in Sydney, Melbourne and Brisbane. Median rents grew at CAGR 5.5% in these markets, from $406 per week to $530 per week between 2018 and 2023.

Newer and highly amenities stock is providing a boost to average market rents. However, like-for-like studios also experienced high teens growth over the past five years.

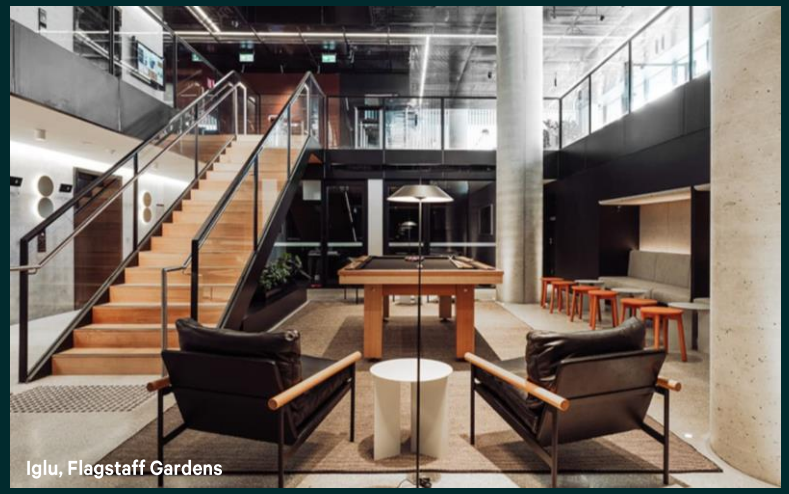
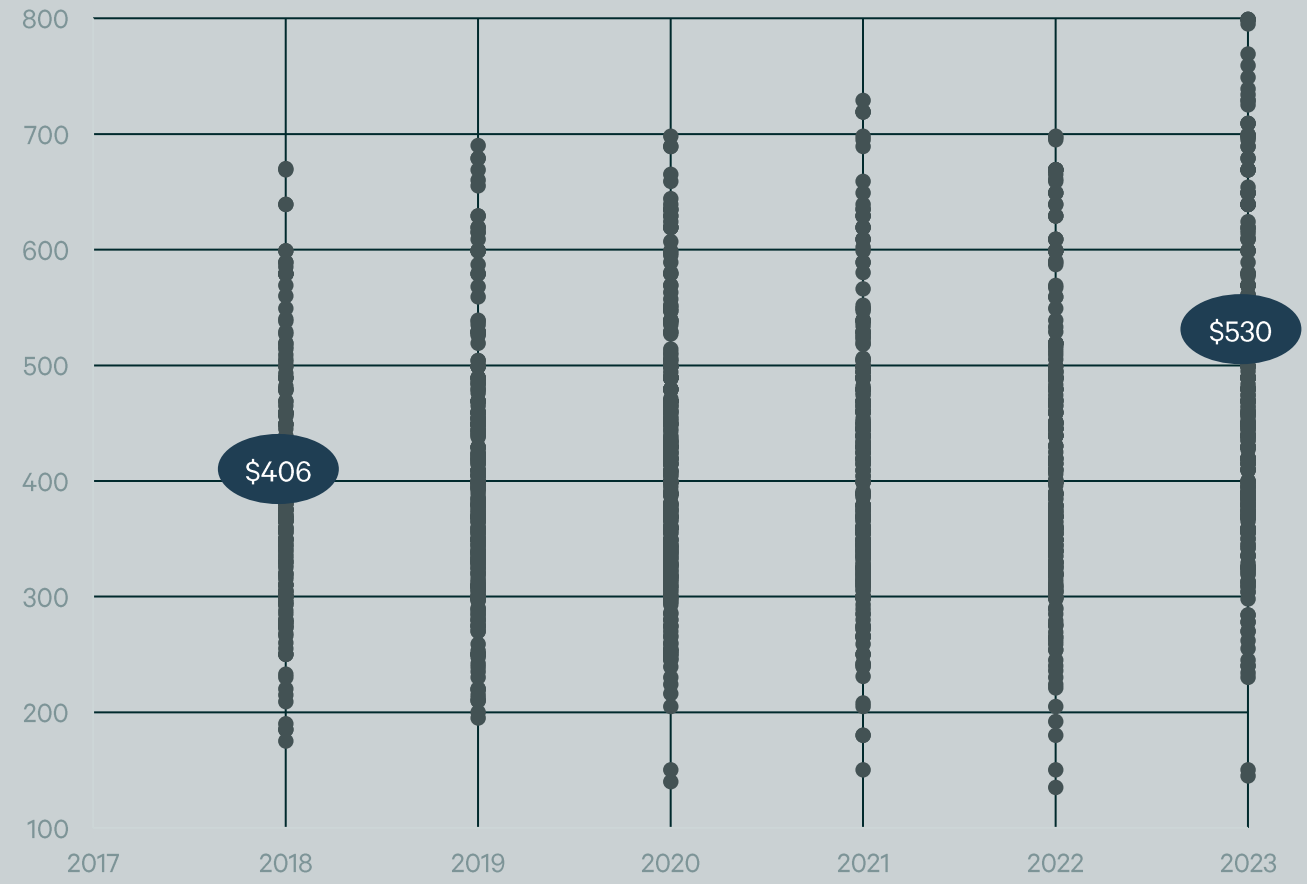

Iglu, Flagstaff Gardens

Figure 13: Profile of weekly PBSA rents across over 300 room types, Australia wide. 2018-2023



Source: CBRE

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Rent premium for amenities

Student accommodation rents are currently at a 15% premium to rents for two-bedroom apartments in the same precinct. But there is a wide range, with 80% of the stock at 10% discount to 50% premium rents.

The premium rents are explainable as purpose built student accommodation offers:

- Utilities included such as electricity & WiFi
- Amenities including gyms, study areas and social interaction spaces
- Safety and security including card swipe access and CCTV
- Fully furnished
- Pastoral care
- Breakfast & coffee facilities
- Community & social activities

Newer student accommodation offers residents premium living experience.

Figure 12: Rent premium of student accommodation vs apartment rents in similar precincts

Source: CBRE Research comparison of 73 student accommodation buildings

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Tight residential supply persisting

Overall residential vacancy is Australia is hovering close to 1%, restricting alternative private rental opportunities for students.

The supply and demand imbalance in the rental sector shows no signs of abating. It is projected that there will be a demand for approximately 556,000 homes over the next five years to 2028. However, the supply pipeline remains muted, with a net supply deficit of over 366,000 dwellings.

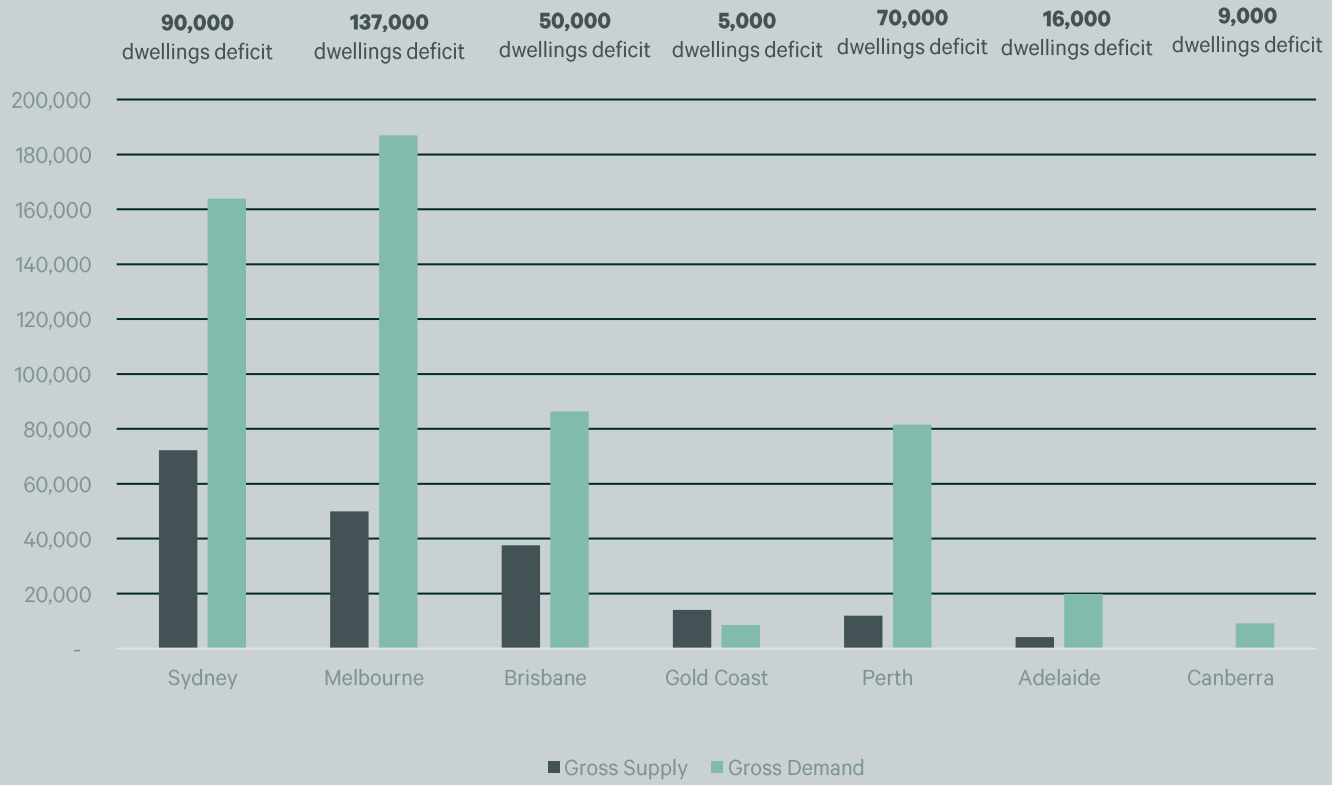
Reasons for the lack of supply to continue:

Acquiring land for development is very competitive with developers of multifamily, hotel or residential pursuing same opportunities.

Build cost inflation – energy prices, labour shortages etc.

Over the past few years, we also see substantial consolidation in the PBSA market, limiting opportunities for non-platform buyers. In addition, the sector is a fragmented in terms of geography and ownership. Most of the new beds coming on the market are usually concentrated in the Sydney and Melbourne, due to the fact that there is a high density of educational institutions, coupled with an availability of development sites.

Figure 8: Net Supply over the next 5 years (total dwellings, metropolitan areas)



Source: CBRE Research, 2023.

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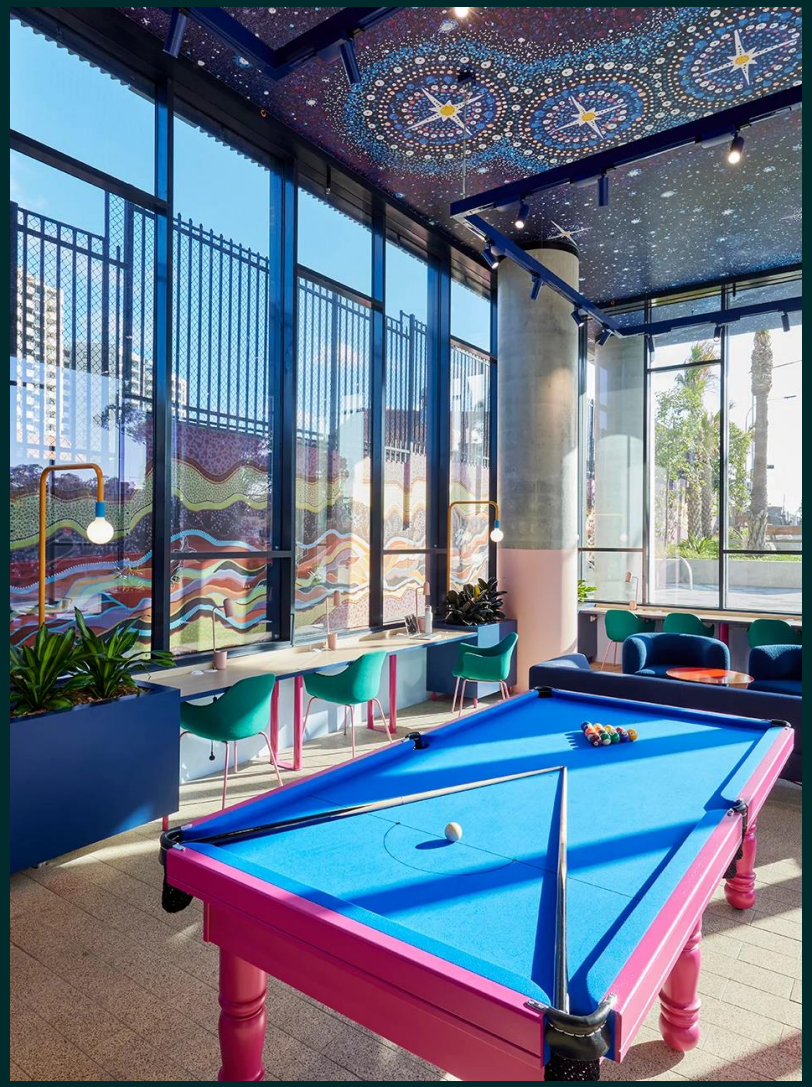
Scape, Redfern



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Consolidation continues as new entrants emerge

After a record 2020, transaction activity slowed over 2021/22.

Consolidation remains the theme of the PBSA sector in Australia with Scape completing 3 assets previously owned and operated by UTS for $85m in January 2022. In the same month, Allianz settled on the second Journal asset for $190m.

Capital continues to pursue development as there are few opportunities to purchase stabilised operational stock.

Capital commitment also strengthened as demand returned with Ivanhoé Cambridge committing upwards of $750million to Scape Core Program – a venture that holds the largest student housing portfolio in Australia with 27 assets and 13,000 beds.

Asset	SYD Cap Rate	MEL Cap Rate	BRIS Cap Rate	ADE Cap Rate	PER Cap Rate	CAN Cap Rate
PBSA	5.00% - 5.50%	5.25% - 5.75%	5.75% - 6.25%	6.00% - 6.75%	6.00% - 6.75%	6.00% - 6.50%

Figure 17: Major Australian PBSA Transaction Timeline

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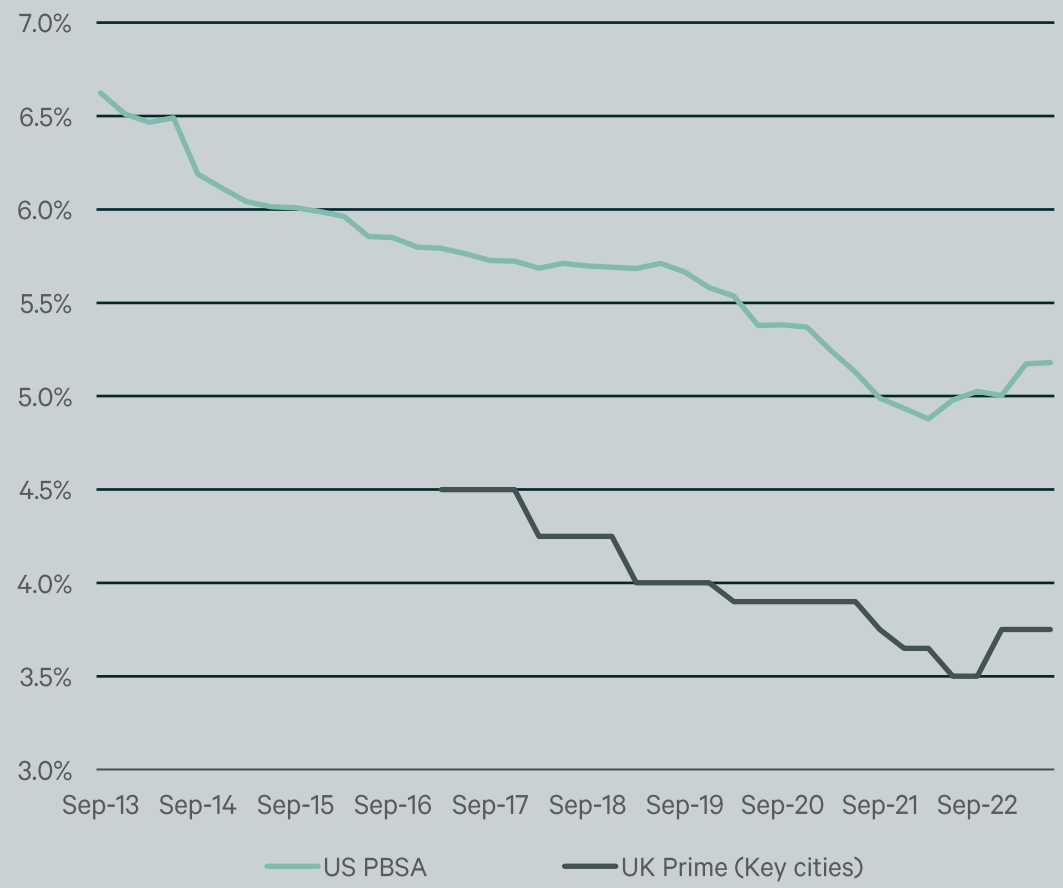
Global pricing metrics

In the US, student housing cap rates have steadily compressed since 2016, with rates averaging 4.92% in 2022, marking the first year in the sector's history that average cap rates fell below 5.00%. Notably, capital market turmoil due to inflation and interest rate hikes placed upward pressure on yields in the second half of 2022.

In the UK, following a slight softening towards the end of 2022, PBSA yields have remained stable during the first half of 2023. This has been driven by strong rental growth across most university cities.

2022 also saw robust trading, with US student housing transaction volumes doubling to $23bn. In the first half of 2023, UK investment volumes have moderated with just under £1bn of transactions compared to £2.8bn in the same period of 2022.

Figure 15: Global cap rates for student living sector



Source: CBRE Research, RCA

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Y Suites on A'Beckett, Melbourne

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Australian Universities

New South Wales)
Charles Sturt University
Macquarie University
Southern Cross University
University of New England
University of New South Wales
University of Newcastle
University of Sydney
University of Technology Sydney
Western Sydney University
University of Wollongong
Australian Catholic University
Central Queensland University
University of Southern Queensland
University of Tasmania
Torrens University
Charles Darwin University
Curtin University
University of Notre Dame
University of Divinity

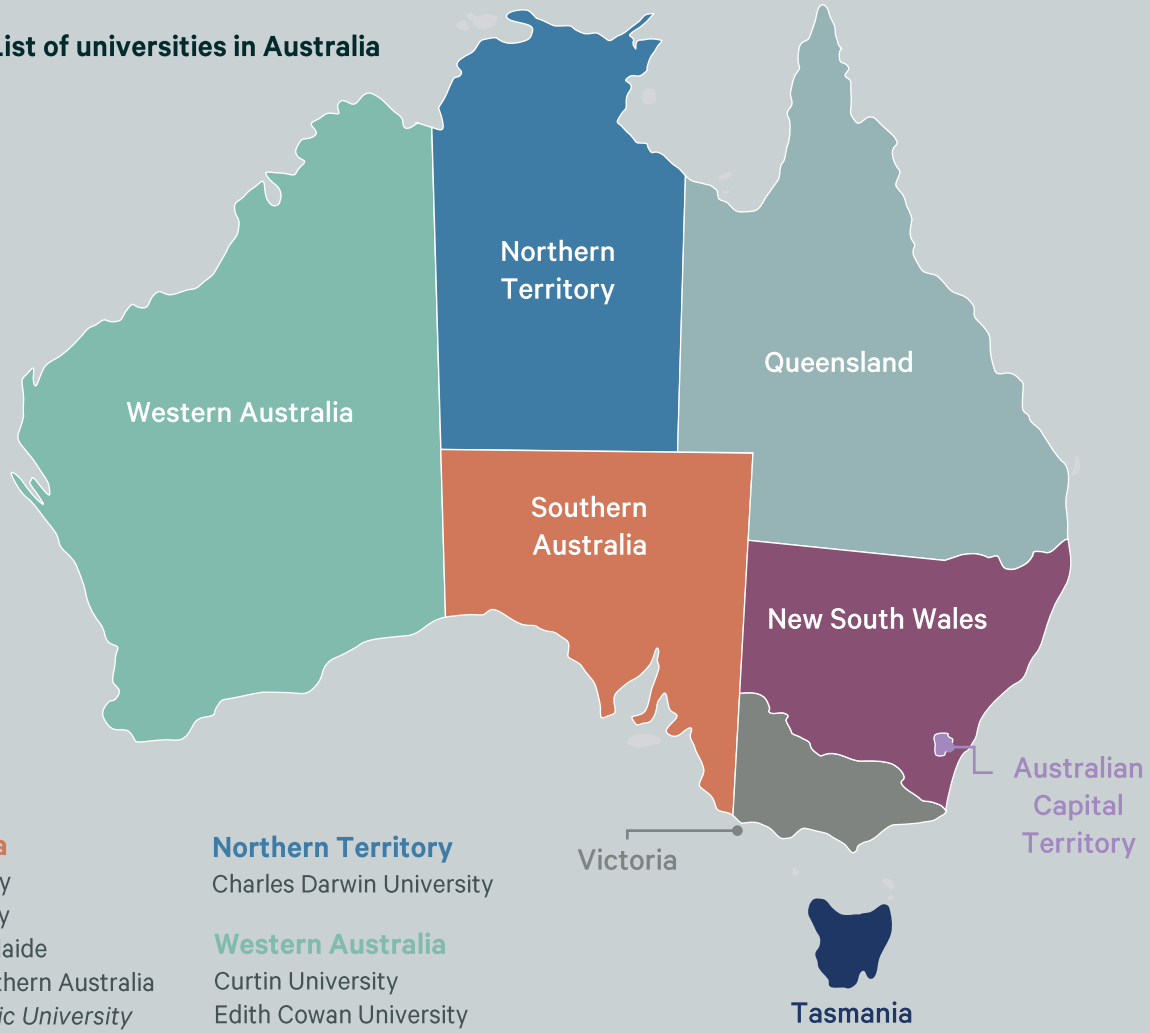
Australian Capital Territory
University of Canberra
Australian National University
Australian Catholic University
Charles Sturt University
University of New South Wales

Queensland
Queensland University of Technology
Bond University
Central Queensland University
Griffith University
James Cook University
University of Queensland
University of Southern Queensland
University of Sunshine Coast
Australian Catholic University
Torrens University
Southern Cross University

Victoria
Deakin University
Monash University
RMIT University
Federation University
University of Melbourne
La Trobe University
Victoria University
Australian Catholic University
University of Divinity
Swinburne University of Technology
Central Queensland University
Torrens University

Tasmania
University of Tasmania

Figure 16: List of universities in Australia



South Australia
Flinders University
Torrens University
University of Adelaide
University of Southern Australia
Australian Catholic University
Central Queensland University
University of Divinity
University College London
Carnegie Mellon University

Northern Territory
Charles Darwin University

Western Australia
Curtin University
Edith Cowan University
Murdoch University
University of Notre Dame
University of Western Australia
Central Queensland University

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