

APAC Student Housing

October 2022

IN A NUTSHELL

- The student accommodation sector remains under-served with provision rates of 5% in Japan and 10% in Australia versus the United Kingdom and United States where provision rates are 23% and 25% respectively. (see Exhibit 1 for provision rate)
 - Direct real estate opportunities in Australia do occasionally come to market but remain very limited. Access could be via off campus built-to-suit development joint ventures with local developers or operators.
 - In Tokyo, the share of purpose-built student accommodation remains low and affordable as private apartments still dominate the market.
 - Over the long term, investment opportunities in key cities with good quality universities particularly in Australia remains attractive as the market continues to mature and access to stock improves.
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During the COVID-19 pandemic, student mobility was temporarily impacted given travel restrictions with some international students unable to return to their university accommodation, and other students stranded overseas switching to online study. There remains uncertainty around travel restrictions particularly from China which represents the largest cohort of students for higher learning institutions particularly in Australia and Japan. However, in recent months there have been positive signs with the reopening of borders and higher education students gradually returning to in person learning.

Provision Rate

Despite the disruptions from COVID-19 still presenting some uncertainties, purpose-built student accommodation (PBSA) in APAC is expected to perform well over the long term supported by the growing demand for higher education and relative affordability compared to the United Kingdom and the United States. The ongoing shortage of PBSA is reflected in the provision rate where Japan and Australia currently stand at 5% and 10% of total full-time student enrolment respectively.

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Exhibit 1: Student Housing Overview

	Japan (Tokyo)	Australia	New Zealand	Germany	France	USA	UK
Full time student enrolment (a)	1.2 mil	1.2 mil	174,305	2.9 mil	2.7 mil	12.1 mil	2.2 mil
% of international students	5%	30%	13%	13%	13%	8%	16%
Student Acco. beds (b)	62,550	119,868	21,043	303,380	382,650	3.06 mil	516,604
Provision rate (b) / (a)	5%	10%	12%	11%	14%	25%	23%

Source: DWS; Savills, Cushman & Wakefield; Australia Government Department of Education and Training; Ministry of Education New Zealand; National Center for Education Statistics; HESA UK; ICEF Monitor, Bonard. As of October 2022.

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1 / Australian Student Accommodation

1.1 International Student Enrolment

From 2014 to 2019, international student enrolments in Australia grew at a compounded annual growth rate (CAGR) of 9% per annum. However, since the start of the pandemic in early 2020, international student enrolments fell by 19% given the border closure with up to 40% of those enrolled located outside of Australia.

Since the start of 2022, students have gradually returned to Australia with international students from some countries returning faster than others. In particular, the number of students from India and Nepal have increased the most while Chinese international students have not returned to Australia as quickly given the strict border controls and limited flight availability from China. Over 86,000 of students remain outside Australia or equivalent to 60% of all international students who are still overseas.

In terms of nationality, over 88% of international student enrolments in 2021 came from Asia with the main contributor of international student enrolments coming from China and India. This was followed by students from other Asian countries including Nepal, Vietnam, Malaysia, Indonesia and Hong Kong.

Australia is expected to remain an attractive English-speaking destination for international students given the quality of its higher education offering as well as the ability to apply for a post-study visa. Since 2008, Australia removed the need for students to apply for a separate work visa, allowing them to work in Australia for between one to five years after completing their course. In addition, international students were previously only able to work up 20 hours a week and this limit has also now lifted.

Exhibit 2: Australia International Student Enrolment

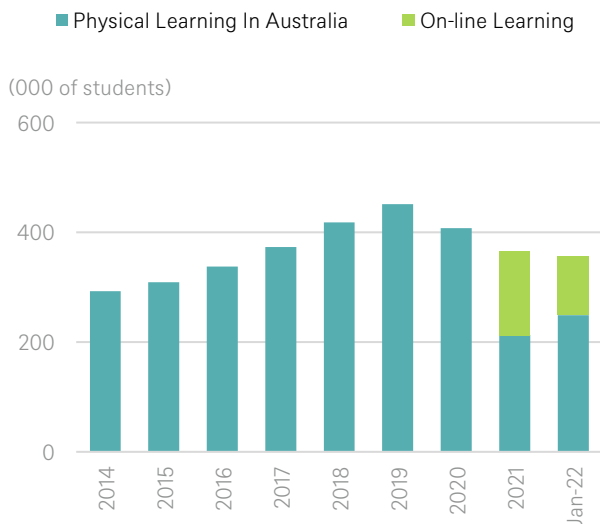
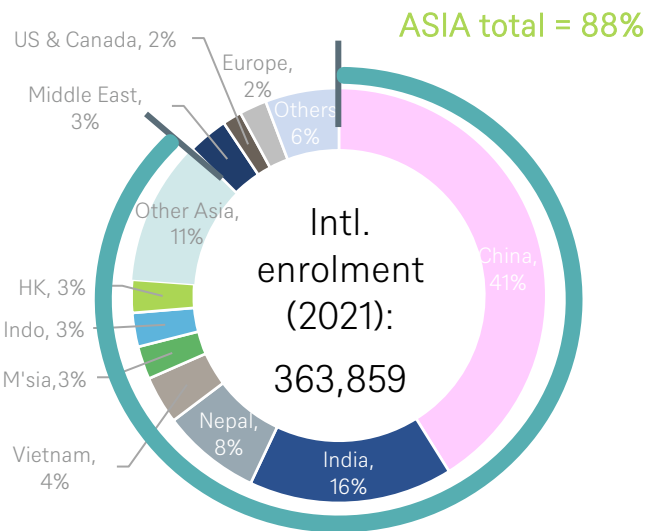


Exhibit 3: International Student Enrolment by Nationality



Source: DWS, Australia Government Department of Education, Skills and Employment, Savills. As of October 2022.

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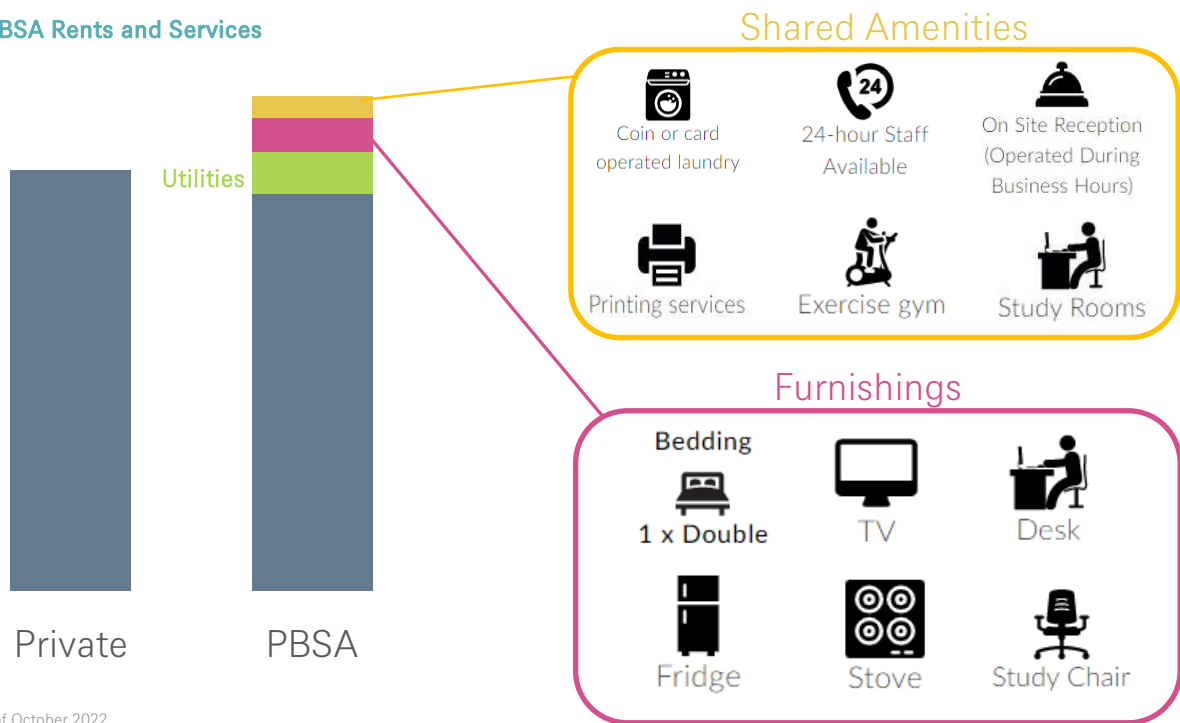
The student accommodation sector has undergone significant transformation from fully catered accommodation to self-catered housing which provides students with more flexibility and independence. Students look to live closer to amenity, shops, entertainment, nightlife, as well as part time jobs. Hence, students that previously lived on campus are looking to move to other locations albeit still relatively close to their campuses but offering these amenities.

Typically, purpose-built student accommodation (PBSA) owned and operated by the private sector is located close to campuses or within central urban locations with good transport links. PBSA is often distinguished by its overall quality, with rooms typically comprising studio, twin studio or two-bedroom apartment with large amenity spaces such as laundry room, gym and study areas becoming the norm to support the student experience.

Many universities also rely on private PBSA accommodation to meet the accommodation guarantees for first year students. This arrangement is done via a nomination agreement between the university and PBSA provider. Under this contract, security of income is underpinned by the university’s commitment to lease for a fixed period. Location remains an important factor and most higher education institutions will only consider PBSA sites that are within at least one to two kilometers to campuses. A large portion of PBSA particularly off-campus accommodation is operated on a management contract model where rooms are directly let to students. However, there is less security on the income given the relatively shorter lease term and are subject to market volatility such as pandemics.

Value for money remains a significant factor influencing a students’ decision on where to live. While renting a house often entails dealing with utility, council payments or internet installation, PBSA rents are all inclusive and can often be more affordable relative to the private rented sector given they often include furnishings, utilities, internet connection and shared amenities and spaces.

Exhibit 4: PBSA Rents and Services



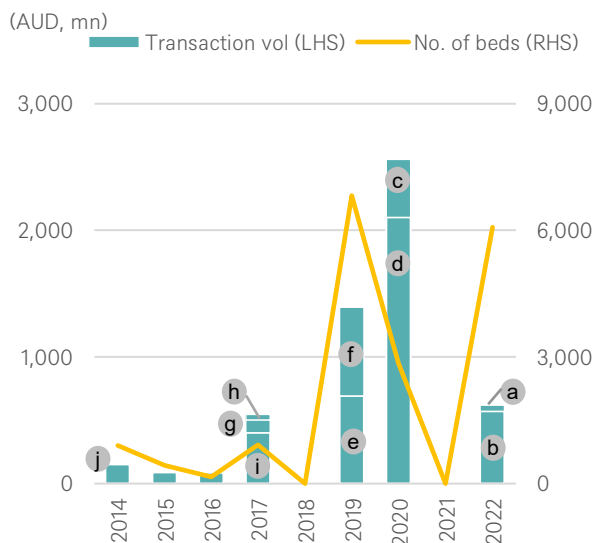
Source: DWS. As of October 2022.

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Given the competitive market, having a brand recognition that is scalable with operational efficiencies are particularly crucial. The service received and experience from booking to living in student accommodation will drive the reputation with universities and students, resulting in higher rates of rebooking.

Indeed, looking at historical transaction volumes, scale remains a key driver for investors looking to access the sector. Portfolio sales have been the main driver of the PBSA sector in Australia with the largest transaction being the acquisition of the Urbanest and Atira portfolio by the Scape Student Accommodation Fund in 2019 and 2020. Most recently, GIC has acquired a 50% stake in the Wee Hur portfolio of seven properties.

Exhibit 5: Australia PBSA Transaction Volume



	Property Name	Date	No. of beds	Price A\$m	Buyer
a	Univ. of Adelaide Village	Sep-22	405	50	Cedar Pacific
b	Wee Hur (7 Prop)	Apr-22	5,662	568 (50%)	GIC
c	Redefine (2 Prop)	Dec-20	1,391	459	Allianz
d	Urbanest (14 Prop)	May-20	1,451	2,100	Scape Fund
e	Atira (6 Prop)	Sep-19	2,638	690	Scape Fund
f	ANU	Apr-19	4,184	700 (50%)	AMP
g	GSA Royal	Dec-17	130	100	Invesco
h	Dwell Adelaide	Apr-17	280	45	Centurion
i	Frasers/Sekisui (2 prop)	Apr-17	500	400	GIC
j	glu Portfolio	Jan-14	900	150	GIC

Source: DWS, Savills. As of October 2022.

1.2 Strategic Implications for Australia

Notwithstanding the short-term uncertainties, international student enrolment is expected to gradually recover as evidenced in the United Kingdom where occupancy rates have returned to pre-pandemic levels since the easing of travel restrictions and reopening of borders. While direct real estate opportunities do occasionally come to market, they remain very limited. For real estate investors, the approach to the PBSA sector would often require taking on some form of development by partnering with local developers or operators.

The provision rate still remains comparatively low versus other major countries such as the United Kingdom or the United States and there remains attractive investment opportunities in key cities in Australia with good quality universities. Reflecting the operational nature and the relatively shorter lease term of PBSA properties, the sector is typically valued at a yield of circa 50-75 basis points higher than other commercial sectors. However, as the market continues to evolve and mature, access to stock and liquidity are expected to improve.

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2 / Japan Student Accommodation

2.1 International Student Enrolment

The number of international student enrolments in Japan has grown rapidly, rising from 53,608 in 2000 and more than doubling to 137,480 in 2018. Students from China accounted for over 50% of all international students studying in Japan followed by Vietnam and Korea representing 11% and 9% respectively.

Across the major cities in Japan, Tokyo receives the largest number of international student enrolments with five out of the top fifteen universities located in the capital city.

Exhibit 6: Japan International Student Enrolment

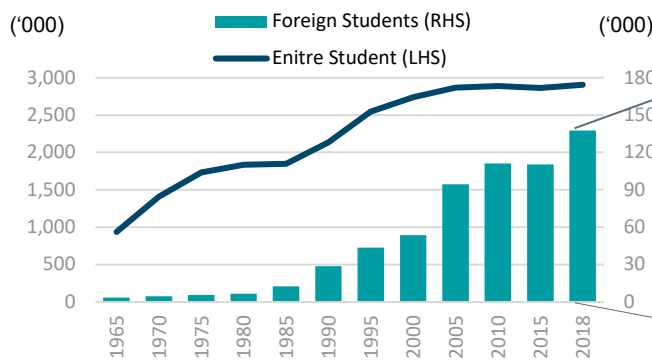
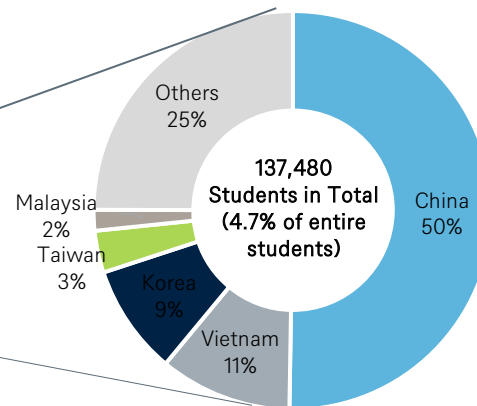


Exhibit 7: International Student Enrolment by Nationality



Source: DWS, Ministry of Education, Culture, Sports, Science and Technology Japan. As of October 2022.

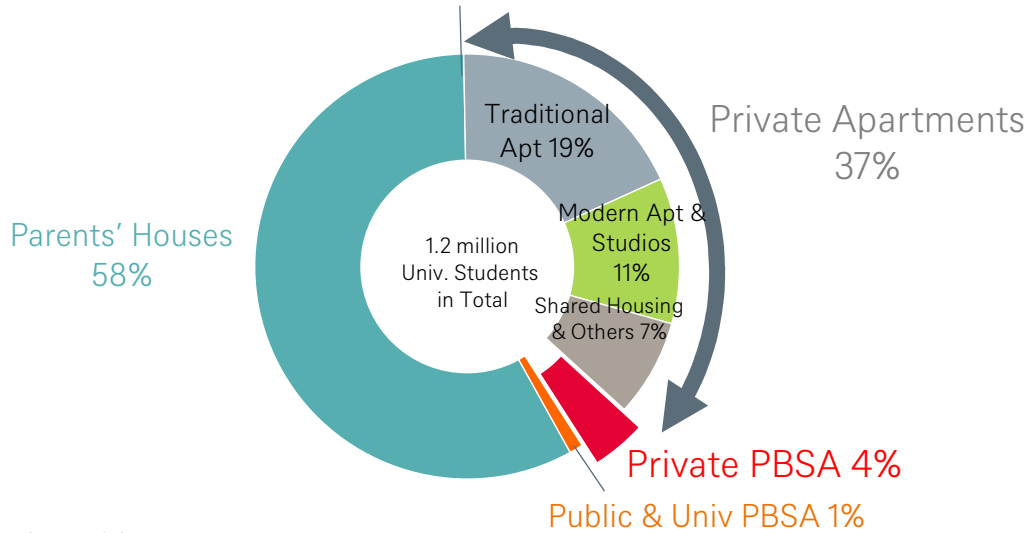
In terms of the share of residential type, close to 60% of university students live at their parents houses while 37% stay in private apartments. While international students will generally rent private rental accommodation, these units will often come with some peculiar requirements such as mandatory key money and joint guarantor for foreigners. As such, private and public purpose-built and professionally managed student accommodation, which currently accounts for 5% of the total stock, are bridging the gap for these overseas students who are less familiar with local norms of renting an apartment.

In 2014, the government launched an initiative called the 'Top Global University' aimed at encouraging the development of modern student accommodation and also increasing the number international students by partnering with 37 universities across the nation. Following the COVID-19 pandemic, the government gradually lifted the cap on international student arrivals with the aim of reaching an international student enrolment of 300,000 by 2027¹.

¹ <https://www.japantimes.co.jp/news/2022/06/23/national/international-students-increase-plan/>

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Exhibit 8: Share of Residence Type



* Purpose-Built Student Accommodation
 Source: JASSO, Ministry of Education, Culture, Sports, Science and Technology Japan, DWS. As of October 2022.

2.2 Strategic Implications for Japan

Affordable private apartments still dominate the market for student housing with the share of private PBSA accounting for only 4% of the total stock. Asset liquidity for private PBSA remains very limited and rents are expected to continue to stabilize with minimal growth. Given the scarcity of institutional grade PBSA stock, direct real estate investment opportunities remain restricted.

As barriers to entry are high coupled with affordable apartments readily available for domestic students, gaining access to the PBSA sector remains challenging. As such, in the short to medium term horizon, the investment story is less compelling for this part of the market. Yields of J-REITs with PBSA properties generally range about 30-70 basis points higher compared to other commercial properties. Notwithstanding, yields are expected to remain stable with the PBSA sector closely aligned with domestic demand.

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