

The image features a modern, multi-story building with curved balconies and a rooftop garden. The building is illuminated from within, and the city skyline is visible in the background at dusk. The MaxCap Group logo is overlaid in the top left corner.

MaxCap
Group

Student Accommodation: The Suite Life

MaxCap Group Research – June 2024

A course outline



Surging tertiary enrolments. Australia remains one of the most popular destinations in the world for tertiary students. The number of international enrolments neared a million students in 2023. Given recent inflows, Australia is well positioned to exceed that mark in 2024.

Stellar student housing demand. This accelerating pace of student inflows is adding significantly to housing demand, particularly for purpose-built student accommodation (PBSA) facilities within major capital cities and around top-tier tertiary education hubs.

Not enough supply. In the face of this relentless demand, the pace of student housing supply is lagging clearly, curtailed by tough competition from other residential developers, strict planning constraints and the small number of operating partners in this sector.

Living your best life. With robust demographic tailwinds in Australia, and lingering challenges for many commercial sectors, the living sector is shaping up as a very attractive destination for investor capital for this cycle, with student housing sitting squarely in this frame.

A better yield for living. Compared to build-to-sell and build-to-rent strategies, student accommodation in Australia is delivering relatively stronger and more resilient income yields, while drawing on the same buoyant structural drivers as the broader living sector.

Greater regulatory focus. While student numbers may change for cyclical or policy reasons in 2025, the persistent undersupply of suitable housing remains in place. Policymakers continue to see additional student accommodation supply as a key part of the solution.

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A substantial student base

The Australian **international student sector** is experiencing a remarkable boom right now. Student enrolments neared 1 million a year in 2023 and looks well on track to exceed that threshold in 2024.

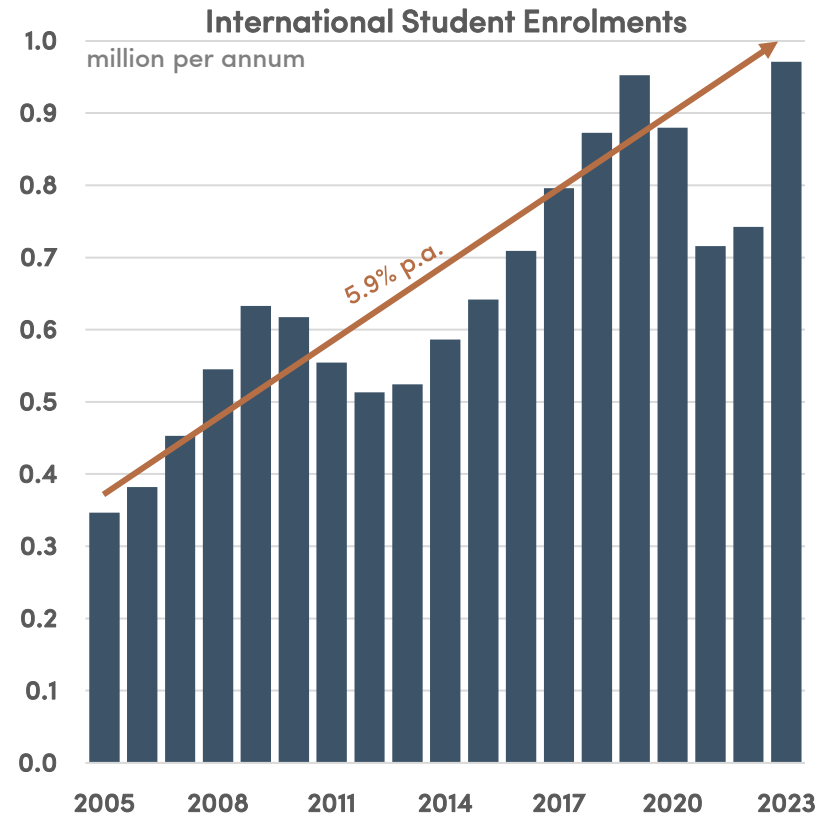
- This rapid growth is driving transformative change in the Australian economy. Tertiary education is now the nation's **4th largest export**, (2023: A\$48 billion) behind only iron ore, coal and natural gas. The outlook is strong, given sustained population and income growth across key source markets, particularly from India and Southeast Asia.
- At the same time, student inflows are adding to **population growth** and rental housing demand. This influx of students has been one factor behind the tightness in the housing market, given low vacancies, rising rents and rising prices, despite higher mortgage rates.
- **Australia remains very appealing** for students, ranking as a top three destination, behind only the US and the UK. Australian universities also feature well in global rankings, a key factor in drawing foreign students.

However, there may be more **regulatory oversight** from 2025 onwards.

- There is a **potential cap on student numbers**. At this early stage, there are no specific details and no identified ceiling, but there is government funding set aside to consider this in the next financial year. The provision of more student housing is a clearly identified policy solution, as universities are set to be granted increased student allocations alongside appropriate increases in student housing supply.
- Meanwhile, there are **policy measures already in place** to manage the foreign student intake, to ensure students attend legitimate courses, to target sham degree-for-visa schemes, and to make sure students have sufficient finances to cover tuition and housing costs.

In our view, these policy measures are not expected to disrupt the flow of legitimate students to legitimate courses. Also, there is good scope ahead to deliver more housing, to increase student allocations for universities.

After a temporary disruption with border closures, Australia's international student intake is rebounding strongly, well set to exceed 1 million enrolments a year



Source: Department of Education, MaxCap Group (June 2024)

The shortfall in supply

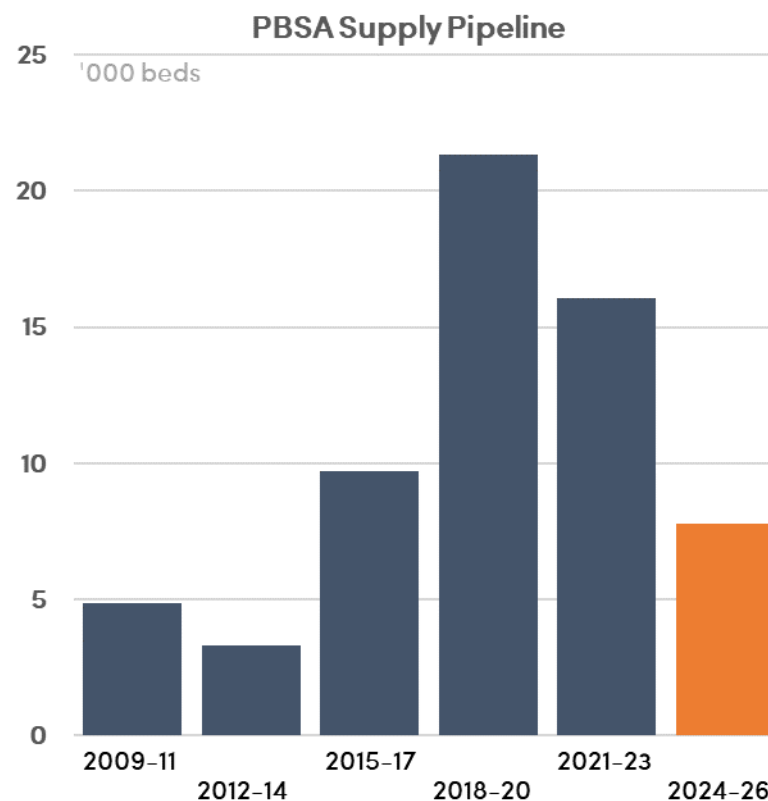
While the sustained influx of students is adding to housing demand, the **supply response** to the housing shortfall is clearly lagging.

- This is clearly evident today for the **broad residential market**, with population gains adding to housing demand, while completions are falling behind. Vacancy rates – at around 1% – are cyclically low, adding to the robust pace of rental growth.
- These themes carry into the **student housing market** as well. Student housing demand is also outpacing supply, especially for purpose-built facilities around key education hubs, where we are seeing similar patterns of undersupply, supporting both occupancy and rental growth.
- Meanwhile, the development of this sector is still at an early stage. The **penetration rate** for PBSA assets is still quite low in Australia (5% of students), compared to more mature markets like the UK (45%) and the US (29%), suggesting strong potential for growth ahead.

For now, the **development pipeline** for new PBSA looks highly constrained, with forecast additions tracking even lower over the next three years to 2026, reflecting a range of familiar supply-side hurdles.

- **Construction costs** have lifted sharply through the pandemic, given dramatic supply-chain disruptions. **Funding costs** have also escalated following an aggressive monetary tightening cycle. Meanwhile, **planning constraints** continue to slow the development of new PBSA facilities. All these factors have markedly restricted new supply.
- From a **policy perspective**, this is the most likely area for change, as policymakers explicitly link between student accommodation housing supply to student enrolment numbers. New PBSA supply will likely be the most effective way to address the massive surge in demand.
- Given these challenges, the primary objective for potential PBSA investors is **finding a top-tier development and operating partner**, with a track record of preparing a pipeline, securing the sites, delivering the buildings and operating the completed assets.

As with other residential sectors, the supply pipeline for purpose-built student accommodation continues to lag demand, maintaining a state of undersupply.



Source: Savills, MaxCap Group (June 2024)

A better yield for living

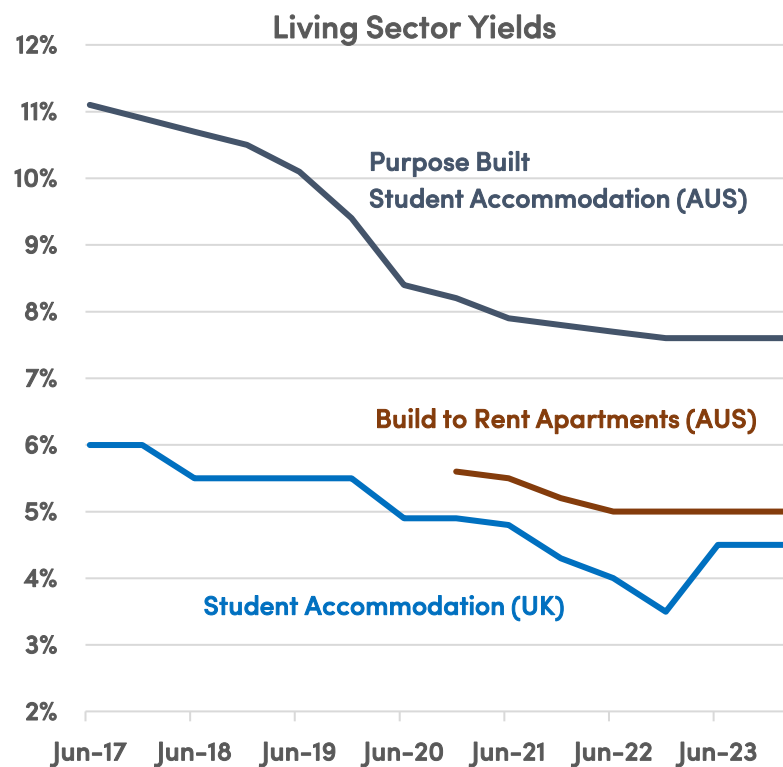
Undoubtedly, **the living sector** in Australia is benefiting from very strong structural drivers over the next few years, buoyed by robust population and demand growth and a persistent state of undersupply. This is occurring at a time of considerable uncertainty for many commercial office and retail sectors, where there are continuing falls in asset prices.

For many investors, a vital focus is finding sufficient **income yields** in the Australian living sector.

- Consider the uneven playing field in the **rental housing sector**, where private mum-and-dad investors are accepting gross income yields of 1-2% for detached (single-family) housing, motivated by a negative gearing strategy that focuses on capital gains and tax deductions.
- Meanwhile, there is exceptionally keen interest for the nascent multi-family or **build-to-rent housing sector** in Australia, as policy-makers seek a solution for the shortfall of housing, as portfolio managers pivot out of challenging commercial real estate positions and as pension funds look for long-dated assets with consistent incomes.
- In the living sector, **yields are already highly compressed**, given the competition from private individual landlords. Moreover, the prevailing yields for institutional investors from build-to-rent developments are markedly lower than yields on offer in student accommodation.

In our view, **student accommodation is the build-to-rent housing sector that stacks up today**. For all the current and intense investor interest in developing the nascent build-to-rent housing sector, low yields make these investments very challenging for most types of capital. Meanwhile, student accommodation is a living sector that is delivering more generous and consistent income yield for investors.

While the build-to-rent housing sector is challenged by low yields, the Australian PBSA sector is delivering more consistent and attractive income flows.



Source: Savills, MaxCap Group (June 2024)

Key investor lessons

For investors looking to gain exposure to the living sector, purpose-built student accommodation stands out as a prime candidate, given robust demand, sizeable undersupply in the sector and the resilience in incomes. In this context, **what is the best course** to approach and invest in this sector? What are the key risks and challenges?

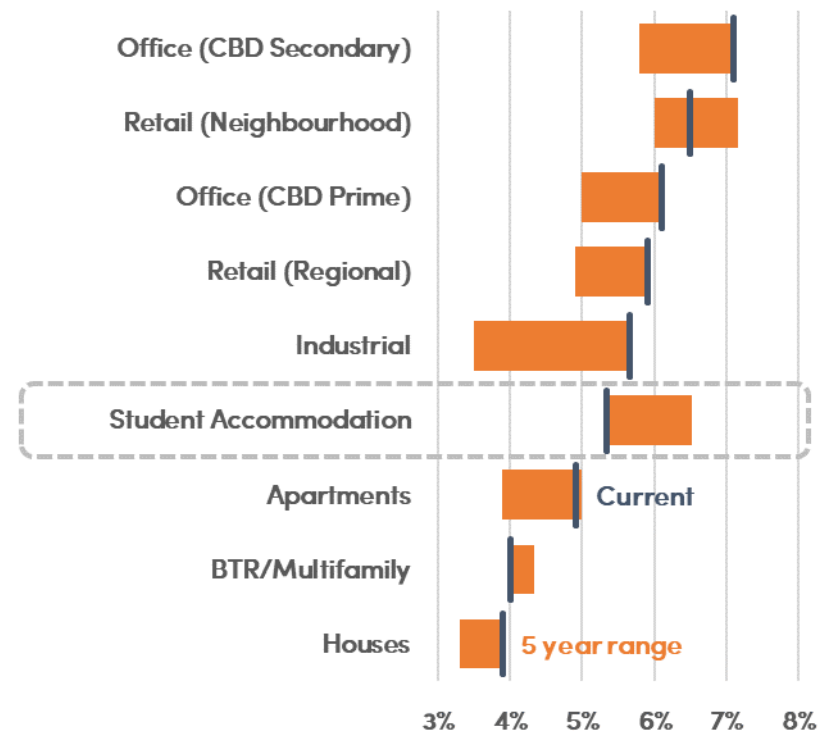
- **What are the keys to success?** As with all real estate sectors, good location is vital. Indeed, proximity to established universities is usually a winning play. Furthermore, students are also looking to be in the city centre or along major transport corridors for convenience. Meanwhile, low vacancies and rising rents in the housing market are generating robust rental income growth for PBSA operators into 2024.
- **Looking for diversification.** From a portfolio strategy perspective, living sectors present a strong diversification play, as investors look to pivot out of underperforming commercial sectors. Indeed, PBSA yields are holding steady in a cyclical downturn, amid cap rate blowouts and capital value losses across many commercial sectors.

What are the key risks to the sector? This runaway pace of student arrivals is not expected to continue forever. Over the next few years, inbound student numbers may slow for cyclical or policy reasons.

- There are already some **early-stage policy discussions**, about managing foreign student numbers, to cut down on low-quality degree-to-visa colleges and to ensure better alignment to skill shortages.
- However, for the **student housing developments** we are focusing on here, we do not anticipate any dramatic change with these potential policy moves. Where a new facility is being developed today, in a major capital city, located around the campus or the city centre, supported by top-tier universities, and targeting legitimate students, the demand-supply equation and investment profile is still very well intact.

Student accommodation yields remain attractive, being higher than other living sectors and far more resilient to cyclical adjustments than major commercial sectors.

Cap Rates / Yields by Sector



Source: Bloomberg, Jones Lang LaSalle, Savills, MaxCap Group (June 2024)

Additional information

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