

**ARA THOUGHT LEADERSHIP SERIES**

**16 Nov 2021**



Positioned for Growth  
the student housing market

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**Group Research & Analytics**

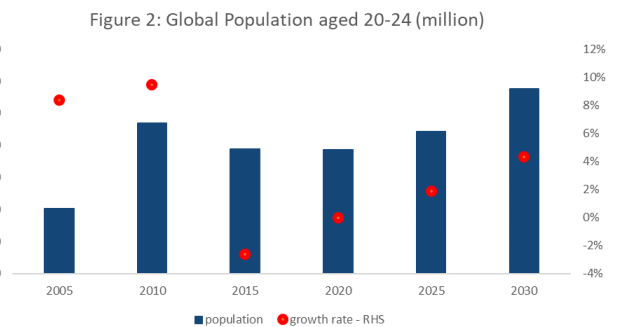
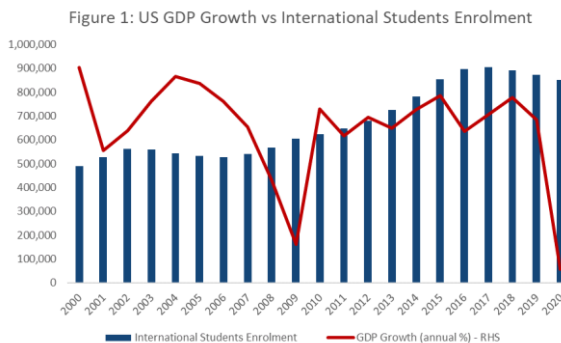
## Introduction

Global demand for tertiary education has been on a rising trend, underpinned by a need for more skilled labour to support growing economies and socio-demographic trends of increasing university-aged population and rising incomes. These trends have been most prominent in the Asia Pacific (APAC) compared to other regions. Transport connectivity between countries has improved with globalisation, encouraging international travel. Demand for student housing has also grown on the back of greater willingness and ability to travel internationally for quality education. While global mobility of students has been restricted due to the Covid-19 pandemic, it is likely to rebound once the situation stabilises and international travel restrictions are relaxed, giving resilience to the student housing sector.

Before the pandemic, student housing had been an increasingly popular alternative investment asset class, reaching a record US\$18 billion in 2019<sup>1</sup>. Despite initial concerns about Covid-19’s impact on demand for shared spaces, the asset class has proved resilient in the face of the pandemic and the resulting economic downturn, especially in markets where borders were more porous.

### Positive demand and supply dynamics underpin the student housing market

Based on US data, student housing has a limited correlation with the wider economic trends (figure 1). Its demand is often supported by longer-term fundamentals such as demography and aspirational want of higher education. University-aged cohorts (age 20 to 24) are expected to increase from 597 million to 635 million between 2020 and 2030, a growth of over 0.5 per cent per annum (figure 2) globally. The rise in the global middle-class population also supports higher education participation rate, as the middle class typically invests a more significant proportion of their income on their children's education<sup>2</sup>. The middle-class growth is expected to be the fastest in APAC compared to Europe and the Americas, rising from 2 billion in 2020 to an estimated 3.5 billion by 2030<sup>3</sup>.



Source: Open Doors, World Bank, UN World Population Prospects, ARA Research & Analytics, Nov 2021

Inbound international students in APAC have risen recently, especially in Australia and China (figure 3). The average annual growth of inbound international students between 2014 to 2018 in Australia and China is 13.7 per cent and 13.3 per cent, respectively, exceeding the global rate of 5.5 per cent. Other student housing markets in APAC also saw increasing demand, including Japan (+8.5 per cent) and South Korea (+12.9 per cent). Comparatively, the international student growth rates are more stable in mature markets of the UK (+1.3 per cent) and the US (+4.1 per cent).

In recent years, the demand far outweighs the supply of student accommodation in many global markets, particularly in Australia. Bed provision rates in major Australian cities such as Sydney and Melbourne are at 12 per cent, in contrast to the 36 per cent in London (figure 4). Construction delay arising from the pandemic has further aggravated this supply crunch. The imbalance could become more pronounced, especially when the entry restrictions on international students are eventually lifted. Australia has recently opened its borders with Singapore, allowing fully vaccinated individuals to travel between the two countries without quarantine. Arrangements are also being made with Japan and South Korea to lift restrictions before the year's end<sup>4</sup>.

Figure 3: No. of International Students in Host Countries

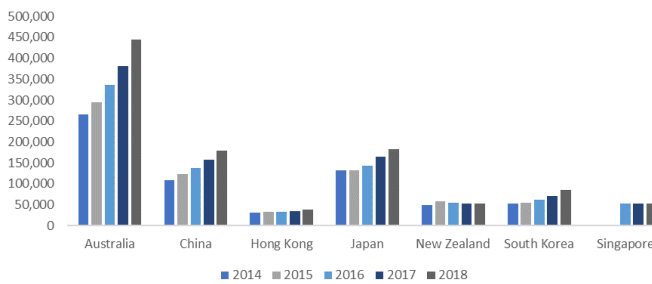
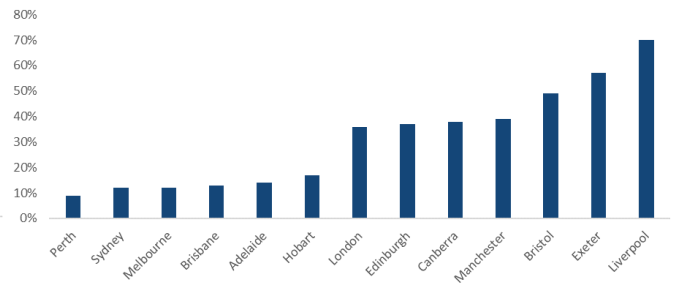
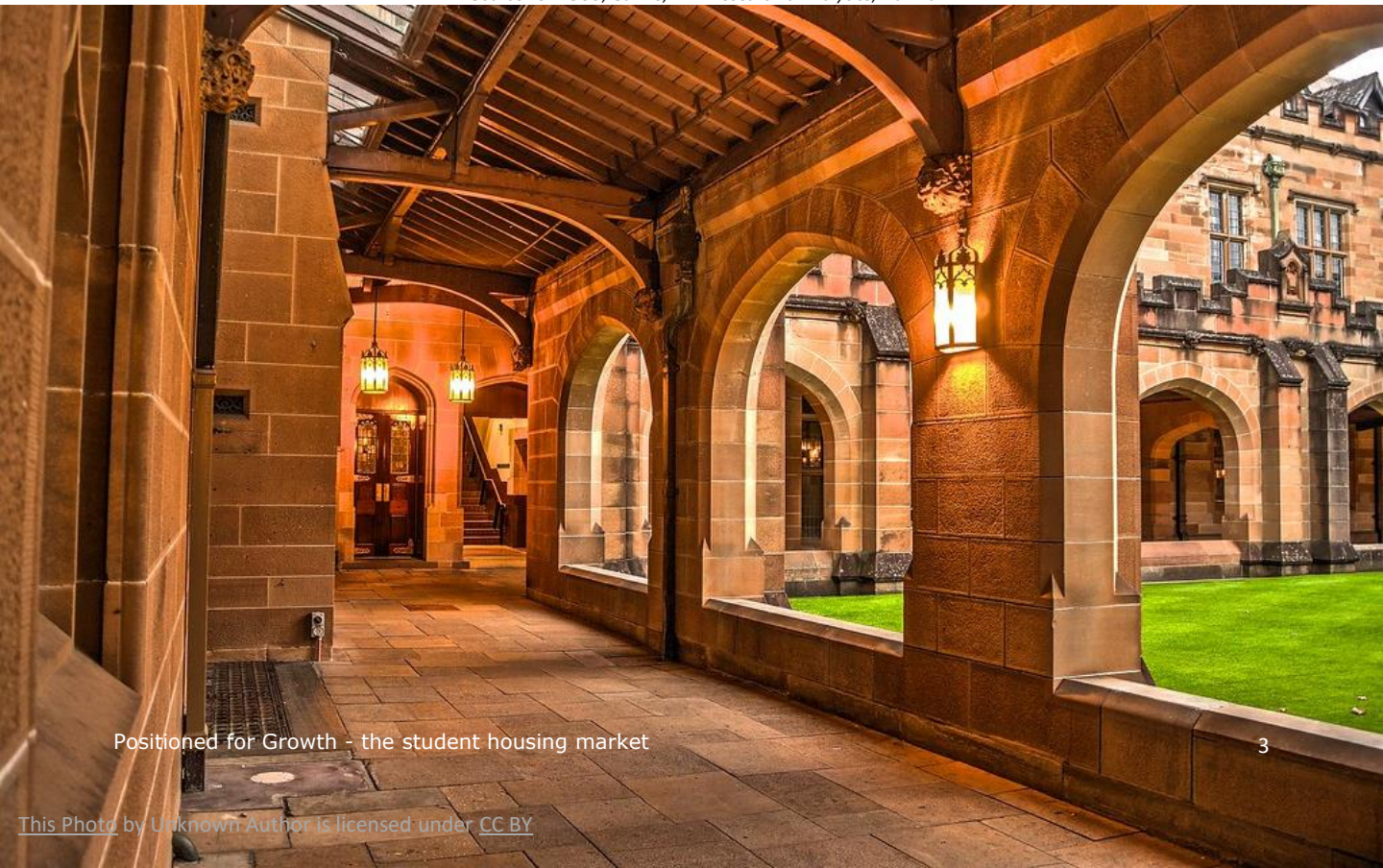


Figure 4: Student Accommodation Provision Rate



Source: UNESCO, Savills, ARA Research & Analytics, Nov 2021







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## Student housing proves its resilience

A recent report by CBRE suggests that student housing has a higher return with lower volatility than other asset classes (figure 5). In the UK, student housing has also outperformed the mainstream property market over the one, five and 10-year period<sup>5</sup>. Total returns for student housing were 4.9 per cent in the one year to September 2020, while its five and 10-year returns are 9.4 per cent p.a and 10.8 per cent p.a, respectively. Additionally, the student housing sector in the UK has also consistently outranked the returns from the traditional office, retail and industrial assets for the majority of the time.

Investors’ confidence in the sector remained strong in the face of the pandemic. Based on RCA data, global investment volumes for student housing reached US\$18.9 billion in 2020, a 4 per cent increase y-o-y. Across the regions, APAC saw the most significant growth for the period, with a 260 per cent increase y-o-y to \$2 billion. Of these, the lion’s share of US\$1.7 billion was recorded in Australia. In 2021, Australia’s YTD investment volume remained modest at some US\$14 million. The strict lockdowns in Australia have impacted investment activity, and we expect a rebound when border restrictions are further eased by mid-2022.

Figure 5: UK Mainstream Real Estate Sectors Volatility vs Total Returns

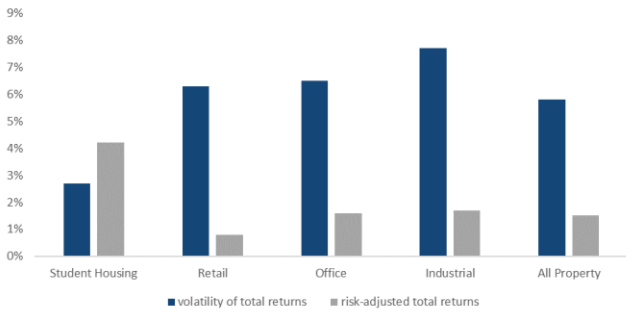
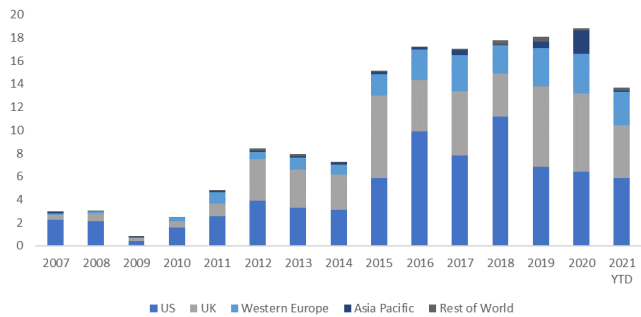


Figure 6: Global investment into Student Accommodation (USD billion)



Source: CBRE PBSA Index<sup>6</sup>, RCA, ARA Research & Analytics, Nov 2021

## A brighter future is in store

As borders restriction slowly lifts on the back of rising vaccination rates and in-person learning resumes, demand for overseas studies is expected to return. Approximately 43 per cent of responding US institutions indicated an increase in their application numbers from 2020<sup>7</sup>. UK institutions reported a similar proportion of increased application numbers for fall 2021.

Prospective students still favor in-person learning compared to online studies, with 83 per cent of respondents from a 2021 QS survey strongly preferring the former. Rather than abandoning their overseas education plan, most students prefer to delay for a year (47 per cent) or choose a different country to study in (16 per cent)<sup>8</sup>.

The global outlook for student housing remains bright. The long-term demand for student housing should resume post-pandemic. High-quality assets close to prestigious institutions will remain popular.

With a rising middle-class population and strong inbound international students, tertiary education is underpinned by strong external and internal demand drivers, notably in APAC. Student housing, especially in Australia, will likely be the key beneficiary. Australia offers the most mature and highly reputable higher education institutions in APAC.

Asset owners and investors should also take note of the changing trends to improve the competitiveness of their assets with greater emphasis on hygiene and digital connectivity<sup>9</sup>.



## References:

<sup>1</sup> Australian student accommodation 2020 report. (2020). Savills. URL: [https://www.savills.com.au/research\\_articles/167771/198722-0](https://www.savills.com.au/research_articles/167771/198722-0)

<sup>2</sup> H. Kharas (2017). The unprecedented expansion of the global middle class. Brookings, Pg 2

<sup>3</sup> This chart shows the rise of the Asian Middle Class. (2020). World Economic Forum. URL: <https://www.weforum.org/agenda/2020/07/the-rise-of-the-asian-middle-class>

<sup>4</sup> Scott Morrison says quarantine-free travel soon on the cards for Korea, Japan. (2021). AU News. URL: <https://www.news.com.au/travel/travel-updates/scott-morrison-says-quarantinefree-travel-soon-on-the-cards-for-korea-japan/news-story/73d239f353f76ddead2b0dc0311c62a4>

<sup>5</sup> CBRE. (2020). CBRE PBSA index: ten years of strong performance

<sup>6</sup> CBRE UK Research. (2020). Sector update: Purpose Built Student Accommodation (PBSA). CBRE, pg 13

<sup>7</sup> Mapping COVID-19's impact on global student mobility. (2021). ICEF monitor. URL: <https://monitor.icef.com/2021/09/mapping-covid-19s-impact-on-global-student-mobility/>

<sup>8</sup> Global International Student Survey 2021. (2021). Navigating a complex global higher education climate amidst crisis. QS, Pg 10

<sup>9</sup> What's behind the pandemic resilience of student housing. (2021). URL: <https://www.wealthprofessional.ca/news/industry-news/whats-behind-the-pandemic-resilience-of-student-housing/359034>

## About ARA Asset Management Limited

ARA is the largest real assets manager in Asia Pacific with approximately US\$95 billion<sup>1</sup> in gross assets under management by the Group and its associates. ARA Group operates a global platform with a focus on APAC, managing public and private investment funds that invest across traditional and New Economy real estate assets spanning office, logistics, retail, residential, hospitality, and data centers, as well as private real estate credit and infrastructure. ARA's vertically integrated business includes development and value-add asset management capabilities, an in-house capital raising team, and property management expertise in local markets where ARA invests and manages assets. With a resolute focus on creating sustainable value, ARA manages funds on behalf of many of the world's largest pension funds, sovereign wealth funds and financial institutions.

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<sup>1</sup> Includes assets under management by ARA Asset Management Limited and the Group of companies ("ARA Group") and its Associates as at 30 June 2021, adjusted for LOGOS' acquisition of Moorebank Logistics Park announced on 5 July 2021. 7

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Sebastian Seah works as an analyst with the Group Research & Analytics team at ARA Asset Management. He provides strategic and market-focused analyses of the economic and property sectors across Asia Pacific.

Prior to joining ARA, Sebastian was responsible for the lease and tenancy management of JTC's industrial properties.

Sebastian graduated with a Bachelor of Science (Real Estate) degree from the National University of Singapore. Together with his experience in tenancy management, Sebastian has the knowledge and skills to provide a multi-faceted approach to real estate research.



### **Dr Chua Yang Liang**

Dr Chua Yang Liang heads up the Group Research & Analytics team at ARA Asset Management. He is responsible for monitoring the economic and property markets across Asia Pacific, and providing strategic data analytics to the Firm.

Dr Chua has almost 20 years' experience in the research and planning-related field. His most recent stint was with JLL where he headed their research teams across South-East Asia.

Trained as an urban planner, Dr Chua brings to the Firm a different perspective to property market research and he publishes original papers on property market trends as well as investment issues.

Dr Chua obtained his doctorate and Masters in City Planning from the University of Pennsylvania, USA, where he developed agent-based simulation for modelling the behaviours of real estate market. He has a Bachelor of Science (Estate Management) First Class Honours, from the National University of Singapore.