

2019

Q
SPOTLIGHT
Savills Research

Global Student Housing Investment



The student housing market • Who are the top players? • The case for investment



IN NUMBERS

425% For the third year in a row, global student housing investment volumes exceeded \$16bn in 2018. Marginally down on 2017, volumes are still some 425% above where they were a decade ago.

\$10.8bn A record \$10.8bn was invested into student housing in the US last year, driven by some exceptionally large deals, including Greystar's acquisition of EdR.

4.8% Student housing yields average 4.8% across 15 key national markets, 370 bps above bonds. They range from 6.0% in Australia (4.11% net of bonds) to 3.7% in Germany (3.70% net of bonds).

34% Provision at the national level ranges from 34% in the UK, a relatively well supplied market, to 10% in Australia.

41% International students are an important source of demand and the US, UK and Australia have the highest number of them. Australia's international student population has increased 41% between 2012 and 2017.

64% Between 2007 and 2017 the number of internationally mobile students grew by 64% to over 5 million, according to UNESCO. They are forecast to reach 8 million by 2025.

Global student housing investment

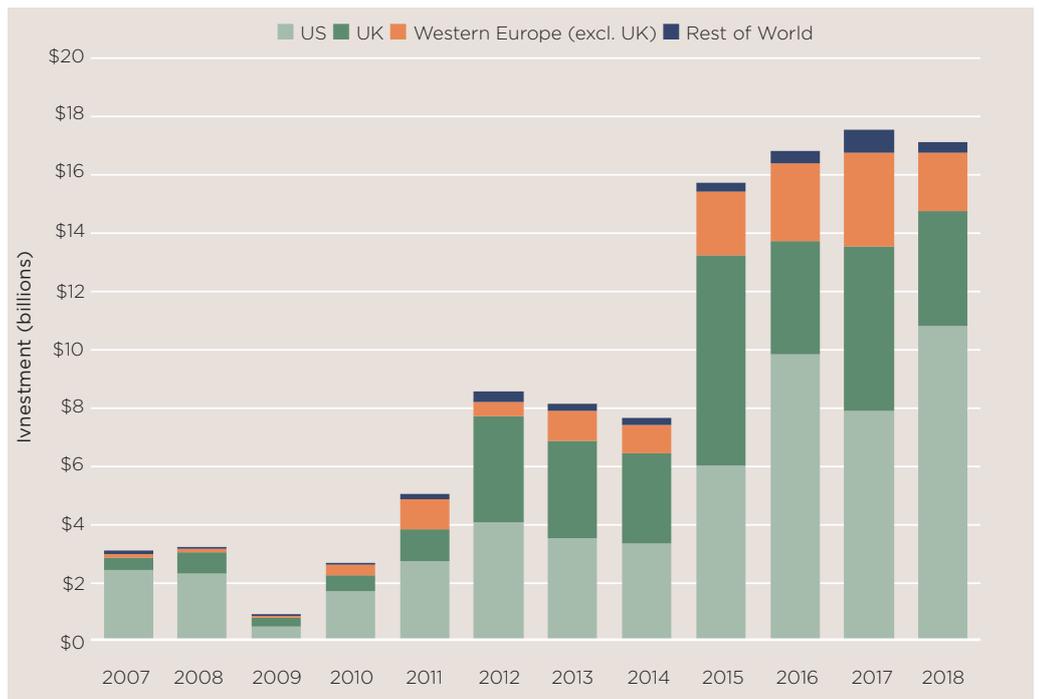
Global investment volumes dipped slightly in 2018, but remain high by historical levels at over \$17bn

Global investment into student housing totalled \$17.1bn in 2018, the third year in a row that volumes exceeded \$16bn. While down 2% on 2017, total volumes are still up 425% since 2008 (all global real estate volumes

rose by 130% over the same period). Provisional Q1 2019 data shows a further \$2.4bn invested in the sector globally, with notable transactions from Brookfield, Greystar, PSP Investments and Allianz.

Volumes in the UK and Western European were down in 2018 as fewer major portfolios came to market (falling 33% and 38% respectively), but the US reached an all-time high with \$10.8bn invested into the sector.

Figure 1 Global student housing investment volumes



Source Savills Research using RCA

👉 The US reached an all-time high with \$10.8bn invested into the sector 👉



Specialist developer owner-operators accounted for 47% of all investment into student accommodation in 2018

Who's active in the market?

A variety of institutional investors are increasingly active in the market. But, developer owner-operators still play a key role

As student housing has matured as an asset class, the types of businesses investing in the sector have changed. At first, pioneer developers held and operated their own stock. Later, sovereign wealth funds and private investors began buying stock as their appetite for alternative assets grew.

Now, a growing variety of pension funds, institutions, and insurers actively invest in student housing. These institutions, many of which invest internationally, accounted for around half of all student housing investment volume between 2011 and 2018.

While consolidation and portfolio acquisitions have driven investment volumes in the last few years, specialist developer owner-operators continue to play a key role in the expansion of the sector and the development of new stock.

They have accounted for 34% of investment into student accommodation since 2011, and 47% of all volumes globally in 2018. By contrast, a quarter of office investment is by developer owner-operators. Greystar, Scion Group and GSA Group are the largest specialists, together investing over \$1bn in the last three years.

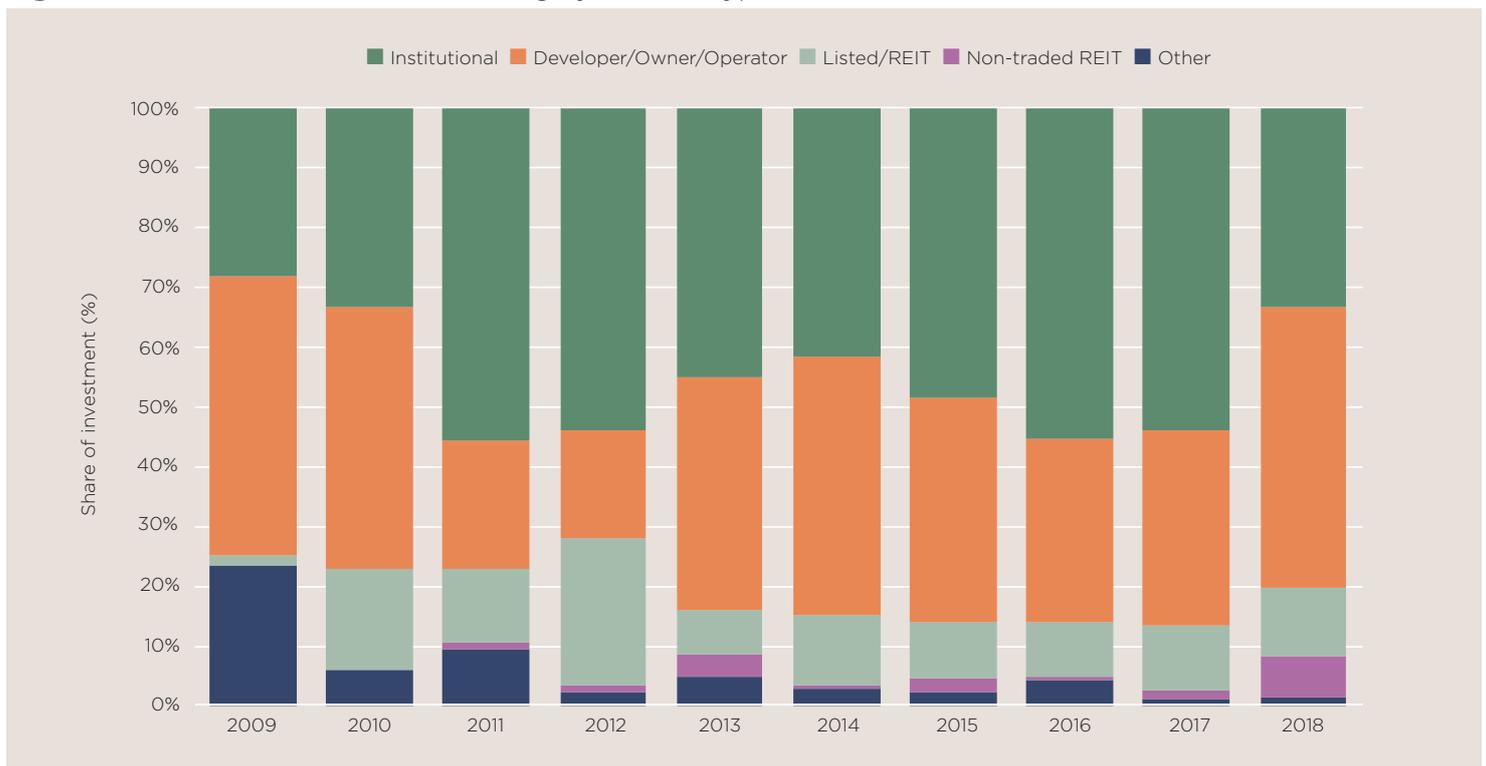
Investment managers made up a third of institutional investment over the past three years. Mapletree Investments has been the most active over the period, first entering the student market in 2016 with the purchase of the 25 property Ardent portfolio in the UK. The Singapore based company has since invested \$2.2bn in student housing globally, according to RCA.

There are two ways institutional buying power is increasing for student housing. First, they are raising specialist residential funds. Second, investors are allocating

a greater proportion of existing funds to residential (of which student is a key sub-class).

In Europe, the largest cross border institutional players include Brookfield Asset Management and Allianz. Large developer owner-operators present include Greystar, GSA Group and The Student Hotel. The latter currently operates 11 properties across Europe, with plans to have 41 properties in European cities by 2021. The Student Hotel operates a hybrid model serving both students and other short stay occupiers.

Figure 2 Investment into student housing by investor type



Source Savills Research using RCA



Greystar has invested \$6.6bn in student accommodation in the last three years, according to RCA

Top players

Joint ventures between global players are common and allow investors to achieve scale

From Singapore's sovereign wealth fund (GIC), to Canada's largest pension fund (CPPIB), to the world's largest insurer (Allianz), a range of global players are active in the buying and selling of student accommodation. Joint ventures in the sector are common, especially for the larger entity-level and portfolio deals, allowing investors to achieve scale and share risk.

Greystar has been the single most active player globally since 2016, and currently owns over 50,000 units across the US and four European countries. Over the past three years, it has invested \$6.6bn in student accommodation, according to RCA. A significant share of this (\$4.6bn) can be attributed to its 2018 purchase of EdR, which is a student REIT and one of the largest developers and owners student housing in the US.

In conjunction with this acquisition, Blackstone Real Estate Income Trust (BREIT) formed a 95%/5% joint venture with Greystar to acquire a portfolio of

20 former EdR properties, with Greystar/EdR continuing to manage the properties.

GIC, a Singaporean sovereign wealth fund, has invested \$4.5bn in student accommodation since 2016, making it the second biggest investor over the period. GIC formed a joint venture with the Canada Pension Plan Investment Board (CPPIB) and The Scion Group (a US based student housing operator), named Scion Student Communities. Much of GIC's activity has since been via this joint venture, with notable deals including a \$1.1bn purchase of a US portfolio from Harrison Street Real Estate Capital early in December 2017, consisting of 24 assets.

Separately, GIC was the one of the first major institutional investors to enter the Australian market, when it bought a majority stake in Iglu in 2014.

It purchased two additional student blocks in Sydney for over \$300m in 2017. GIC currently owns student assets in the UK, US, Germany and Australia.

Figure 4 Student housing yields

Q1 2019	Prime net student housing yields	10 year government bonds	Yield net of bonds
Australia	6.00%	1.89%	4.11%
Austria	4.25%	0.31%	3.94%
Denmark	4.00%	0.08%	3.92%
France	4.25%	0.37%	3.88%
Netherlands	4.75%	0.19%	4.56%
Germany	3.70%	0.00%	3.70%
Ireland	4.75%	0.61%	4.14%
Italy	5.50%	2.54%	2.96%
Norway	4.00%	1.72%	2.28%
Poland	6.00%	2.87%	3.14%
Portugal	5.50%	1.26%	4.24%
Spain	5.00%	1.12%	3.88%
Sweden	4.25%	0.38%	3.87%
UK	4.50%	1.10%	3.40%
USA	5.80%	2.51%	3.29%

Bond yields as of 4th of April 2019

Source Savills Research

Figure 3 Top investors in student accommodation since 2016

Rank by total investment US\$ 2016-18	Investor	Notable Joint Ventures	Type	Origin	Markets active in	Total volumes 2018 (USD)
1	Greystar	Chapter - Greystar, Allianz, PSP Investments	Developer/Owner	United States	US, UK, Spain, Netherlands, Austria	\$4.5bn
2	GIC	Scion Student Communities - GIC, CPPIB and Scion Group	Sovereign Wealth Fund	Singapore	UK, US, Germany, Australia	\$310mn
3	CPPIB	Scion Student Communities - GIC, CPPIB and Scion Group.	Pension Fund	Canada	UK, US, Spain, Germany	\$310mn
4	Scion Group	Scion Student Communities - GIC, CPPIB and Scion Group.	Developer/Owner	United States	US	\$540mn
5	Harrison Street RE Cap		Equity Fund	United States	UK, US, Germany, Ireland	\$220mn
6	Mapletree Investments		Investment Manager	Singapore	US, UK, Canada	\$200mn
7	Brookfield AM		Real Estate Operating Company	Canada	UK, US, France	\$830mn
8	Goldman Sachs*	iQ Student Accommodation (Vero Group) - Goldman, Wellcome Trust and Greystar (minority), Atira	Equity Fund	United States	UK, US, Australia	\$250mn
9	BREIT		Private REIT	United States	US	\$1.2bn
10	GSA Group		Developer/Owner	United Kingdom	Germany, Ireland, Spain, UK, Australia	N/A

The total investment figure for joint ventures is applied to the individual parties where split is not known
*Includes iQ Student Accommodation purchase of the Pure Student Living portfolio

Source Savills Research using RCA



Student REITs and publically listed student housing operators in the UK have continued to outperform the real estate market in general

Student housing REITs

A further sign of the maturity of the sector is the rise of dedicated student housing REITs

Following EdR’s acquisition by Greystar, American Campus Communities (ACC) is the only publically traded student housing REIT in the US. ACC is the largest owner and manager of student housing in the United States, with over 200 properties in operation.

Since 2014, the REIT has performed broadly in line with real estate sector benchmarks. In recent years the company has maintained the quality of its portfolio by selling old assets and focused on development on or close to university campuses.

Meanwhile student REITs and publically listed student housing operators in the UK have continued to outperform the real estate market in general. The largest, Unite Group PLC has performed particularly

well, growing with a focus on university partnerships. Unite also has over 6,500 beds in the pipeline to 2022, increasing the company’s exposure to high and mid-tier universities across the UK.

Yields

Yields have decreased as the sector has matured and attracted a deeper pool of investors. Less developed countries still present opportunities for yield-seeking investors. In markets such as Australia and some less mature European markets, there is potential for yields to decrease further. Even in more mature markets where student housing appears more fully valued, the sector still offers returns well above government bonds.

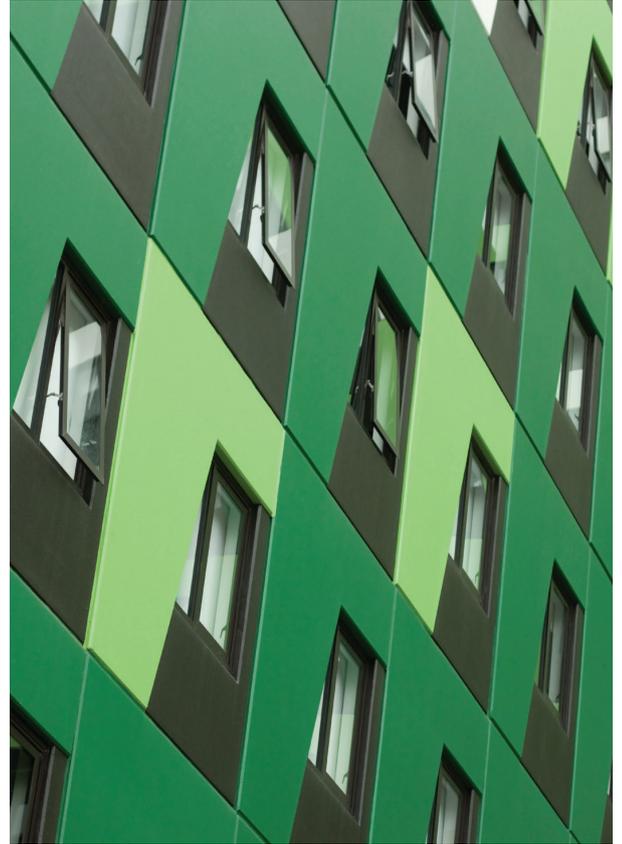
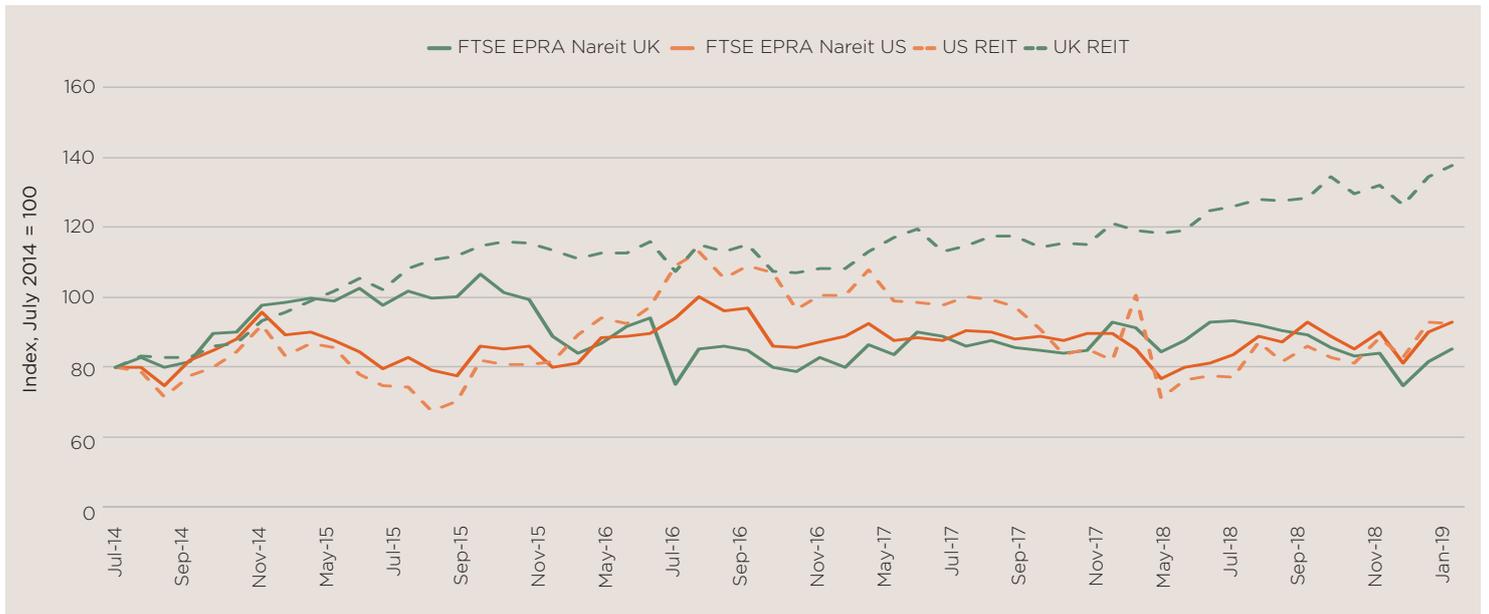


Figure 5 US and UK student housing REITs vs All REITs indices



Components: US REIT – American Campus Communities (NYSE:ACC); UK REITs – Empiric Student Property (LON: ESP), GCP Student Living (LON: DIGS), Unite Group (LON: UTG)
 Source Savills Research using FTSE Russell and investor information

The case for student housing investment

Student accommodation has evolved from an alternative asset class into a mainstream investment which now attracts a variety of global institutional investors. High income returns attracted the first investors to the sector, but as the sector has matured and yields have come in, investors are now drawn to student housing's counter-cyclical income stream. In economic downturns, demand for student housing tends to increase as students prolong their studies while they wait for the job market to improve, while those out of work return to university to upskill.

Internationalisation of higher education

International students, unfamiliar with local housing markets (and often with higher budgets), are an important demand base for purpose built

student accommodation. Many countries have realised the benefit of international enrolment to universities as a tool to fuel the domestic economy, and are now actively encouraging international recruitment.

Between 2007 and 2017 the number of internationally mobile students grew by 64% to over 5 million, according to UNESCO. The US, UK and Australia are host to the largest number of them. Australia, benefiting from proximity to the major Asian source markets, has seen international student enrollment into higher education rise 41% between 2012 and 2017. The number of international students increased by just 8% in the UK over the same period.

International students numbers in mainland Europe are rising rapidly too, attracted by English Taught Programmes and lower cost tuition.

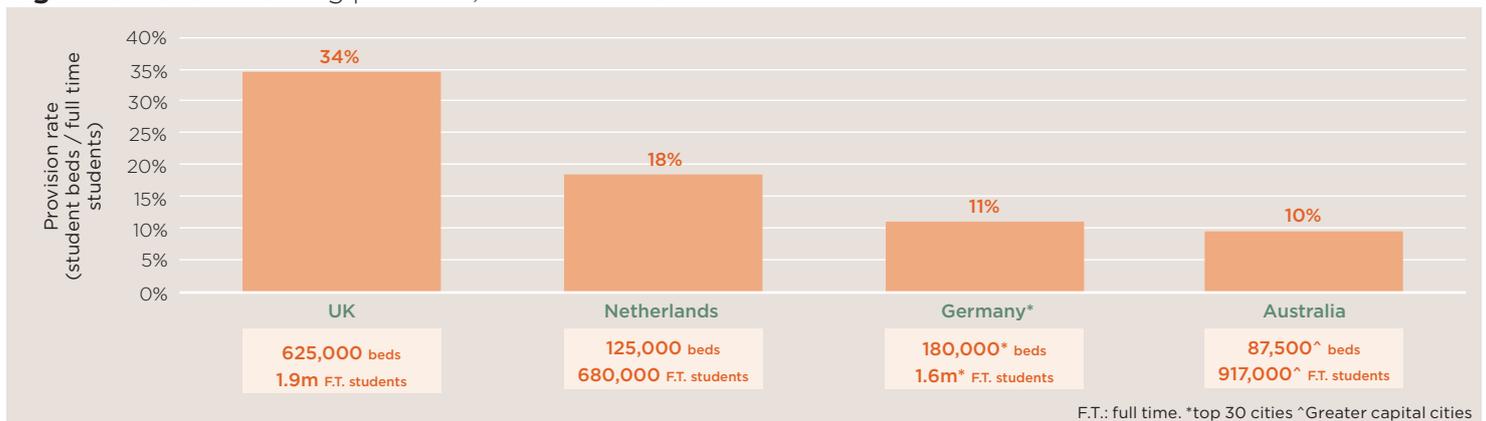
Future growth in outbound student numbers is expected to continue to be driven by major source markets China and India. Their rate of growth is forecast to slow to 1.7% per annum by 2027, however, from an average of 6% between 2000 and 2015, according to a British Council report.

Provision

Despite a rise in student numbers, and in turn investment, student accommodation remains largely undersupplied at the national level. Student housing provision rates (number of beds / full time students) in major markets range from 34% in the UK to just 10% in Australia.

“ Internationally mobile students grew by 64% to over 5 million. ”

Figure 6 Student housing provision, selected national markets



Source Savills Research

OUTLOOK

Competition for international students:

While international student numbers continue to rise globally, competition for them has never been greater. The UK has announced a strategy to boost numbers by 30% over the next decade, supported by post-study visa extensions of up to a year for international students to find work. This still falls short of the 18 month extensions offered by the US and Australia.

Opportunity in the middle tier:

To date developers and investors have focused on the premium end of the market. There exists significant potential in serving the middle tier between low-quality university stock and new premium product. Partnerships with universities or social providers to upgrade existing properties may be means to achieve this.

Beyond students:

The co-living model mixes students with other occupiers. This broadens the demand base as well as supporting a wider range of services and amenities, in turn enhancing the appeal to occupiers. We anticipate further hybridisation and merging of the residential asset classes to come.

Investment outlook:

An impediment to expansion of the sector to date has been relatively restricted operating platforms, but this is changing as they mature and expand their capabilities, giving comfort to core investors. We expect to see continued portfolio diversification among major investors in student housing to include the whole spectrum of residential assets (multifamily, co-living, senior housing), as greater efficiencies through shared-management platforms are sought.



Savills World Research

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