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PBSA: Sector resilience backed by long-term growth

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The long-term appeal of a higher education in Australia remains strong, as evidenced from experiences before, during and particularly post the pandemic. Geographic proximity to some of the fastest growing middle-income economies sharing similar time zones, high-quality education and relative affordability compared to other English-speaking markets are among the compelling reasons underpinning the sector's structural and cyclical resilience.

The sharp market downturn sparked by the pandemic dampened demand for student housing during the pandemic, with overseas students' enrolments limited due to border closures. However, a V-shape recovery followed, which is testament to the merit of investing into Australia's purpose-built student accommodation (PBSA) sector.

Robust structural demand and limited high-quality supply continues to support the growth of the PBSA sector in Australia and its attractiveness within a globally diversified real estate portfolio.

HOW THE PANDEMIC IMPACTED PBSA

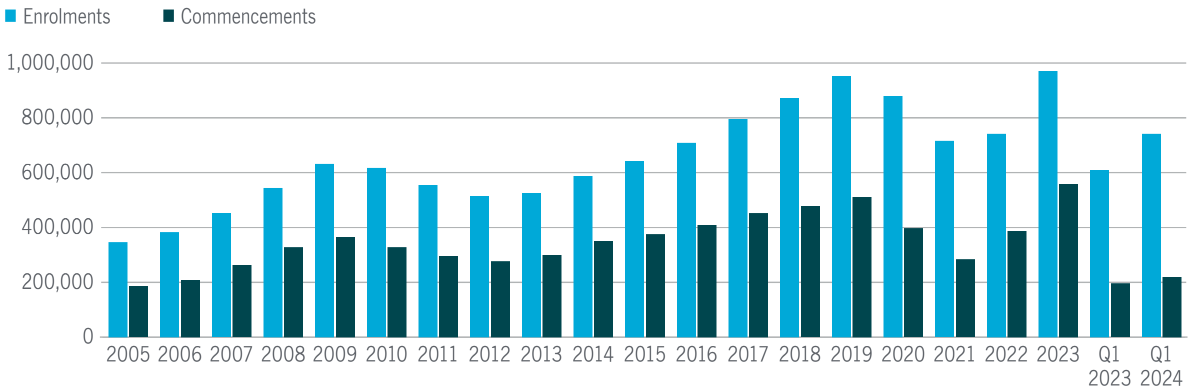
For more than two years, the future of international education — and the mobility of students — was at a crossroads. Not only had the uncertainty of travel plans and to on-campus teaching disrupted admissions, but the affordability of international education also became an increasing concern.

Financial anxieties due to an uncertain employment market became a barrier with parents and students unable or unwilling to raise funds for an expensive international education. Students depending on part-time work to partly fund their studies also faced challenges during the downturn, which was made worse as universities curtailed scholarships.

The pessimism of the student housing sector began to reverse as it became clear life would carry on during and post-pandemic.

Following the border reopening in Australia, however, international student enrolment sharply increased (Figure 1).

Figure 1: Student enrolments in 2023 exceeded the previous peak



Source: CEIC, 2024

GOVERNMENT BILL TARGETS INTERNATIONAL STUDENTS

The strong economic rebound and the related pass-through into rising living costs and housing prices have resuscitated pre-pandemic angst over uninhibited immigration and student visa fraud.

There are also fears that a further sharp escalation in PBSA rents will impact the competitiveness of the Australian education sector. In Sydney, rents now average around AU$850 versus AU$550 per week in 2020 amid a shortage of student housing and the affordability challenges in the broader private residential market.[1] Indeed, tight existing stock and limited future supply continues to drive rents higher, after having risen 60% over the past three years. Provision rates across key capital cities are unlikely to improve in the short to medium term due to low construction starts upended by the pandemic and rising construction costs.

Among the measures that have been implemented recently, the Australian government announced a cap on new international student commencements at 270,000 in 2025, including:

- 145,000 for public universities
- 30,000 for private universities and non-university higher education
- 95,000 for vocational education and training institutions (VET)

While some institutes will be excluded from the cap (including schools, higher degree by research programmes, standalone English-language providers and non-award programmes), others will be assigned an indicative cap based on data provided by these higher education institutions and colleges. This data will include information such as recent levels and proportion of new international student commencements of the total student cohort.

The implication is that top universities, often with higher concentrations of foreign students or which have grown more quickly in recent years, could receive lower cap allocations. If passed by Parliament, the legislation will take effect in January 2025.

This latest policy follows on from the government's earlier pronouncement to tighten international student visa applications. While some questions may linger (how caps for individual universities are allocated, for instance), this announcement provides the necessary clarity to all stakeholders involved in this very important sector.

Education is Australia's second largest export sector after mining, worth almost AU$50 billion to the economy in 2023 (equivalent to 2.8% of GDP) and supporting around 250,000 jobs.[2] Overseas students are also important consumers, with 60% of their expenditure spent on purchasing goods and services and the remainder on tuition, according to our estimates. It is unlikely that the Australian government would seek to negatively impact the revenue brought in from international students.

There will be limited impact on publicly funded universities — the 145,000 slots allocated is roughly in line with the historical average of 148,000 and about 20% higher than pre-Covid levels. Conversely, the VET sector will be most impacted, with the proposed 95,000 cap being much lower than its 145,000 long-term average.

LIMITED, IF ANY, MEDIUM-TERM IMPACT ON PBSA

The very good news is that the cap for universities/higher education — the key source of demand for the PBSA sector — will be at 175,000 (public + private universities and non-university higher education), which is almost at the 2019 pre-Covid commencement level of students. And while the largest cuts will be borne by the VET sector, the government can also reallocate unused caps from universities to other institutions where there is greater demand.

The government's bill should be viewed favourably, providing much-needed clarity to all involved in the education sector, helping alleviate concerns over uncontrolled people movement and the pass-through impact on housing needs. Education is a key export sector and ongoing tweaks to ensure its continued contribution to economic growth and social wellbeing will continue to guide policy going forward.

Overall, we remain highly optimistic over the PBSA sector's medium- to long-term prospects; already undersupplied, the provision rate will remain tight, hindered by elevated construction costs, high financing costs and limited land availability. In our view, supply will continue to chase demand for many more years to come.

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—Louise Kavanagh
CIO & Head of Asia Pacific, Nuveen Real Estate

AUSTRALIA WELL PLACED TO BENEFIT FROM DEMOGRAPHIC SHIFTS

Higher education in Australia remains an important sector for the country's economy; from just under AU$7.4 billion two decades ago, the sector grew by 8.1% compound annual growth rate (CAGR) to AU$48.0 billion in 2023 to become the nation's largest services export equivalent to 2.8% of GDP.[3] Nuveen Real Estate also estimates that income generated by international students at the top eight universities could support 73,000 jobs across all sectors. This growth of the international education sector resulting from structural undercurrents can and will ride past the policy and cyclical headwinds.

There are 46 Australian universities ranked among the top 1500 globally, according to QS World University Rankings 2025, with 10 featuring among the top 100 led by the University of Melbourne, ranked 13th.

The quality of education complements the quality of life afforded to international students. According to the Mercer quality of life city ranking in 2023, five Australian cities, led by Sydney, ranked among the top 30 globally, ahead of the highest ranked city in the U.S. (San Francisco) and U.K. (London).

Yet, the cost of living stayed considerably lower than other international cities; Sydney, the most expensive city in Australia (ranked 58th globally) is well behind New York City (7th) and London (8th).

The Australian dollar's depreciation has not only underpinned the cost of living, but also the affordability of an international education. Take China, the biggest student market in Australia, as an example. The cost of an education in Australia for a Chinese resident was about 23% cheaper (in purchasing power terms) compared to the U.S. on average over the past five years (Figure 2).

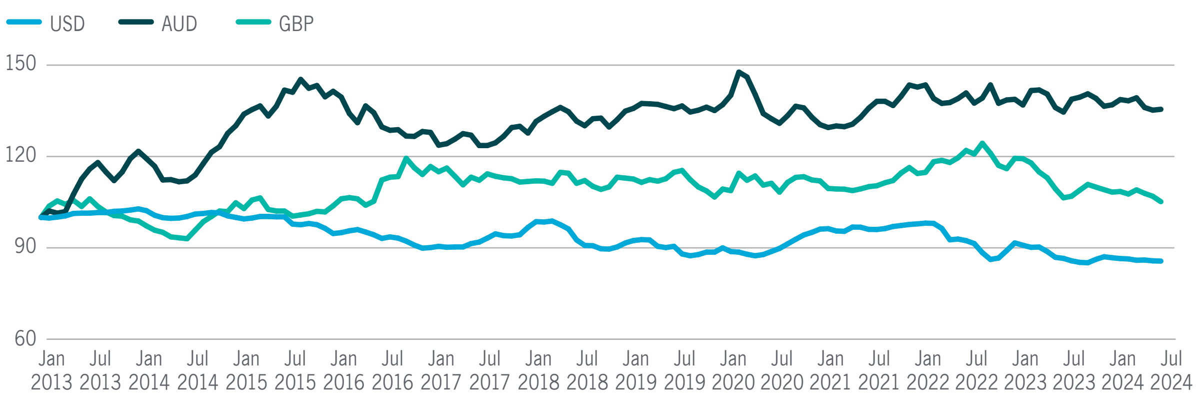
APAC will account for about half of global output and a third of global consumption by 2030, led by fast-growing developing economies such as China and India. The rapid pace of urbanisation and rise of the middle class and wealth has been the lynchpin of growing overseas education demand.

Over the past decade, the number of middle-class households in the biggest student overseas market — China — earning between US$35,000–$70,000 (current prices) grew by 33 million, or 11% CAGR, and is further expected to grow by another 85 million (10% CAGR) in the next decade to 135 million (close to the population of Japan). Given sustained growth of 8% CAGR from 2002 to 2023,[3] there is little reason to believe that the longer-term demand by Chinese students for an education in Australia will diminish (Figure 3).

Unlike many developed economies running population deficits due to low birth rates, there is still untapped demographic dividend that will continue to underpin the education sector. While total population in Australia is forecast to slow to 1.2% CAGR over the coming decade compared to 1.3% over the last 10 years, the youthful population between ages 0-19 (making up around 24% of total population and backed by high immigration) will continue to supplement the total number of students heading to higher education in the years ahead.[4]

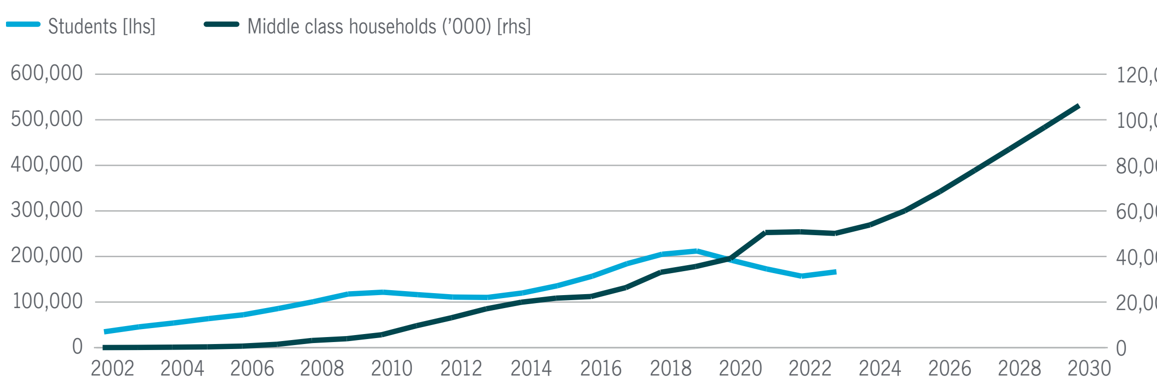
Figure 2: High quality, yet more affordable for Chinese students

Per RMB, index (Jan 2013=100)



Source: CEIC, 2024

Figure 3: Attractive long-term prospects (China only)



Source: Oxford Economics and Australian Government – Department of Education, July 2024

PBSA RESILIENCE BACKED BY STRONG GROWTH PROSPECTS

There are still many positive factors in the PBSA sector, in view of the structural tailwinds paving the way for the Australian higher education sector.

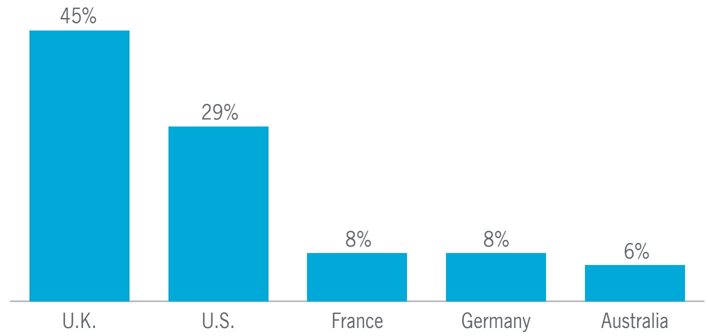
While the pandemic created some short-term headwinds, the fundamental justifications continue to point to long-term resiliency. As the third largest education market globally and despite additional student accommodation being supplied in recent years, Australia remains under-supplied compared with other global markets (Figure 4).

Even as supply continues to expand in the coming years, the current provision rate (beds as a percentage of international and domestic-away-from-home student population) at 6% remains significantly low. It is a classic case of supply chasing demand. Indeed, this structural undercurrent has helped to support a drop in asking rents of only around c.10% during the pandemic period.

Australia's PBSA sector has navigated a volatile few years well, considering the sizable downdraft from Covid on economic activity and mobility in other traditional real estate sectors such as retail and office. The rebound has also been swift post the pandemic. The recent stringent policy amendment considerations to control student numbers may result in a momentary dip in student flows due to uncertainty in visa applications but will only help to enhance the quality of enrolments, further bolstering Australia's reputation of an already high standard of education. For global investors, the PBSA sector has proven its resiliency during volatile market cycles, while the future points to an attractive growth story with strong demand inflows.

Figure 4: Australian student accommodation remains an underserved market

CBRE - PBSA penetration rate (beds over students)



Source: CBRE, July 2024

For more information, please visit nuveen.com.

Endnotes

Sources

1 Source: Nuveen Real Estate.

2 Source: CEIC, Nuveen Real Estate.

3 Source: CEIC, 2024.

4 Source: Oxford Economics, 2024.

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