THE BUSINESS TIMES

Monday Jun 24, 2024

BT
businesstimes.com.sg

Real estate players home in on student housing to cushion their portfolios

Shortfall in rooms and surging demand for them are feeding rents and returns for purpose-built student accommodation globally

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PROPERTY groups and asset managers are putting more money into student housing, a sector that is proving to be a solid defence against the diminishing returns and crumbling valuations elsewhere in their portfolios.

A shortage of supply and rapidly growing demand have fed rents and bumped up returns in purpose-built student accommodation (PBSA) across major markets. In stark contrast, assets such as offices have been plagued by impaired valuations and high vacancies, which have hurt returns.

Most recently in June, CapitaLand Ascott Trust (Clas) acquired the remaining 10 per cent stake in a 678-bed, freehold student-accommodation property in South Carolina in the eastern United States.

The acquisition is expected to generate an Ebitda (earnings before interest, taxes, depreciation and amortisation) yield on total development costs of about 7 per cent.

In April, private equity giant KKR bought a portfolio of 19 student housing properties (with more than 10,000 beds) in the US, from Blackstone Real Estate Income Trust for US$1.64 billion.

In the same month, Mapletree Investments picked up 31 student housing assets across 19 cities in the United Kingdom and Germany, for £1 billion (S$1.7 billion). And Far East Orchard (FEOR) acquired a 49 per cent stake in Homes For Students, a PBSA operator with over 40,000 beds across the UK and Ireland, for £17.6 million.

The PBSA segment has a structural supply-demand gap that makes it a "favourable" market to continue exploring, said Alan Tang, group chief executive of FEOR.

"Demand will continue to outstrip supply with projected full-time undergraduates (in the UK) growing at a faster pace than PBSA pipelines, and this will continue to fuel rental growth," he said.

The sector has quickly become one of Mapletree's core real estate areas of focus, for its "fundamental demand-supply imbalance and defensive characteristic", said Matt Walker, Mapletree's chief executive of student housing.

Recent student housing deals

COMPANY	ACQUISITION	PRICE
CapitaLand Ascott Trust	Remaining 10% stake in 678-bed freehold property in South Carolina, US	Undisclosed
KKR	19 properties with more than 10,000 beds across 10 states in the US	US$1.64b
Far East Orchard	49% stake in Homes for Students Limited, a PBSA operator with over 40,000 beds in the UK and Ireland	£17.6m
Mapletree Investments	8,192 beds across 19 cities in the UK and Germany, and an operating platform providing the group with direct operational control of the newly acquired portfolio	£1b
Far East Orchard	Site in central Glasgow, Scotland, with the intention to develop a 273-bed property	£3m

GRAPHIC: HYRIE RAHMAT, BT

Vijay Natarajan, RHB Singapore's property and real estate investment trust (Reit) analyst, noted that student accommodation is typically regarded as a counter-cyclical sector, with stable cash flows and a low correlation to other real estate segments, such as the office, retail or industrial sectors.

Macroeconomic trends do not significantly affect student intakes and, correspondingly, the demand for student accommodation, said Serena Teo, chief executive of Clas' manager.

"Amid inflationary pressures and rising residential rental costs, students also tend to prefer staying in a well-managed student-accommodation property for a better experience and safety."

FEOR attributed much of its FY2023 profit growth to its PBSA, which continued to be a "stable income contributor", accounting for more than a third (37.1 per cent) of its operating profit. The group's net profit nearly tripled to S$65.9 million; its total revenue grew by 30.3 per cent year on year to S$183.6 million.

In some years, earnings from FEOR's student housing made up for the lacklustre performance in other business segments. In FY2021, the group's student accommodation arm booked S$20.3 million in operating profit, against the S$9.9 million earned by its property development and investment arm; its hospitality segment even recorded an operating loss of S$25.8 million.

At Clas, some 10 per cent of total gross profit in FY2023 came from its eight student accommodation properties under management contracts in the US, Teo told *The Business Times*.

Gross profit in FY2023 grew

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19.6 per cent year on year to S$338.2 million.

In the first quarter of FY2024, stable income sources, which include its student accommodation properties, accounted for around 64 per cent of gross profit.

The remaining 36 per cent came from growth income, contributed by management contracts for hotels and serviced residences.

"Student accommodation properties boost Clas' stable income stream, enhancing its income resilience against macroeconomic uncertainties, while also diversifying the portfolio beyond serviced residences and hotels," Teo noted.

In the medium term, Clas is working towards a stable income base with 25 to 30 per cent of its total portfolio value in longer-stay assets, such as rental housing and student accommodation, and 70 to 75 per cent in hospitality assets. Currently, around 17 per cent of its total portfolio is in longer-stay assets.

PBSA assets are also proving valuable upon divestment, given the demand for them. Mapletree has divested its student housing asset in North Carolina in the eastern US for an undisclosed amount, "driving value and maximising returns" to investors, the group said on Jun 20.

Stable yields

Mapletree has beefed up its presence in student housing since entering the sector in 2016, with both acquisitions and development projects, said Walker.

Following the European deal in April, its overall student housing portfolio now comprises 87 student housing assets with over 33,000 beds across 47 cities in the UK, US, Canada and Germany. As at May 2024, Mapletree's student housing assets under management (AUM) stood at S$5.9 billion, accounting for about 7 per cent of its total AUM.

A Knight Frank report on student housing in Q1 in the UK noted that yields have been relatively stable, having shifted by only 50 to 75 basis points from peak pricing – despite higher financing costs, skills and labour shortages, and "tricky-to-navigate" planning policies.

A CBRE analysis on the UK market published last December said student numbers are at record highs, driving strong demand for accommodation and compounding the current shortfall. New supply will continue to be limited by factors such as planning constraints and the need to modernise the existing stock.

Occupancy for the 2023/24 academic year was the strongest on record, CBRE said. It has forecast rent growth to be at least 5 per cent for the 2024/25 letting cycle.

In the Australian market, a Savills report published last December showed that the yields for prime PBSA assets typically ranged between 4.75 and 6.25 per cent. The highest yields came from Perth and Adelaide, at 5.75 to 6.25 per cent; the lowest yields were recorded in Sydney, at 4.75 to 5.25 per cent.

A JLL report published in March noted that the Australian market's reliance on demand from international students was apparent during the pandemic, when asset occupancy levels fell sharply.

The return of students after borders reopened in 2022 was boosted in 2023 when China mandated that students enrolled in overseas universities attend in-person learning.

Future opportunities

Companies BT spoke to are banking on the PBSA sector continuing to thrive.

Said FEOR's Tang: "With the current (demand-supply) imbalance, unless the growth of PBSA in the coming years is able to surpass the growth of university student enrolments – unlikely in the near to mid-term – we do not see any key indicators signalling when supply will catch up with demand."

A spokesperson from City Developments Limited, another property player active in the student-housing sector, said the group will continue to focus on strengthening its recurring income through portfolio diversification and asset optimisation.

With players steadily adding more assets to their holdings, could a pure-play PBSA Reit be in the offing?

Mapletree and CLAS would only say they would continue to explore opportunities in student housing.

FEOR's Tang said: "At this stage, it is too early to consider a Reit as we have not yet reached a suitable size." The group is "well on track" to meet its target of 5,000 beds by 2025; of that number, 3,700 are operational beds, and around 1,000 beds are in the pipeline.

Still, Natarajan from RHB cautioned that, even with the student housing sector's defensive nature, diversification and low correlation to other sectors, companies should watch out for micro-market risks.

"(These include) an over-reliance on particular nearby universities, as well as the changing political and regulatory landscape, which can have a significant impact on the influx of overseas students, in addition to forex risks," he said.

Natarajan noted that with "significant market capital" chasing the PBSA segment over the past few years, it is also "vulnerable to capital outflows if other sectors, such as office, come back in favour".