

Executive Summary

The Student Accommodation Council is pleased to provide a submission into *'Australia's International Education and Skills Strategic Framework'* Draft Consultation Paper.

The Draft Consultation Paper is broad in its scope. This submission principally deals with *Objective 2: A Managed System to Deliver Sustainable Growth Over Time* and Question 6, *'How should government implement a link between the number of international students and an increased supply of student housing?'*

There is a strong opportunity presented in this submission for the private Purpose-Built Student Accommodation (PBSA) sector to deliver on the Government's objective of delivering sustainable growth in the international education economy by delivering more housing stock.

Currently the private PBSA sector has approximately 8,800 dwellings untenanted and available to provide an immediate injection of new housing stock into the broader rental market. Priority should be given to ensuring that existing PBSA stock is used to its full capacity.

There is significant opportunity to accelerate the pipeline of new private PBSA developments into the market to alleviate the rental housing shortage that is being experienced in Australia. In order to achieve this, consideration should be given to providing shorter development pathways, ensuring that financial barriers to development are reduced or eliminated, and streamlining regulations which negatively impact the viability of PBSA developments.

Given the significant scope being considered in this Draft Consultation Paper, there is risk that poor policy outcomes could lead to a loss of jobs and investment, a loss of taxation revenue as well as unintended consequences that could see an exacerbation of the rental housing shortage.

This submission provides recommendations to deliver on the Government's objectives as well as delivering better economic, social and residential outcomes for Australia.

Who is the Student Accommodation Council

The Student Accommodation Council is the peak industry group representing private purpose-built student accommodation (PBSA), a unique asset class owned and operated by the private sector and currently providing over 80,000 professionally managed beds to students across Australia in over 200 buildings. The Student Accommodation Council is a division of The Property Council of Australia created in 2022 to advocate on behalf of this growing sector.

The ten founding members of the Council account for the majority of PBSA beds in Australia. These members are Scape, Journal Student Living, GSA and Yugo, Iglu, UniLodge, Campus Living Villages, Student One, Wee Hur and Y-Suites, Cedar Pacific and Pamoja Capital, Centurion and Dwell.

Current figures produced by the SAC have shown that 74% of all the PBSA beds owned by our members are home to international students – making the sector a significant stakeholder in providing safe, custom housing and community for international students in Australia.

What is PBSA

PBSA is an accommodation facility specifically designed and built to accommodate students attending university or other forms of tertiary education. The accommodation includes onsite staff providing pastoral care, academic support, and facilitating social activities. The two main types of PBSA include:

- Private sector PBSA - Independent Style Student Studios and Apartments: Usually in higher density apartment developments located near campuses. They offer a range of product types from studios to five-bedroom apartments which are mostly self-contained. Buildings are staffed 24/7, are designed with large communal spaces and floors to encourage socialisation and are very popular with international students, with 74% of all private PBSA are tenanted to international students.
- University Owned Residence Halls and Colleges: Typically located on or close to the university campus and are either owned by or affiliated with the University. Accommodation is mainly dormitory style with shared bathrooms, kitchen/ catering, and laundry facilities. Over 90% of students housed in these facilities are domestic students.

As the peak industry group for private sector PBSA, this submission will focus on the first accommodation typology - the private sector PBSA apartment-style buildings that have been built in Australian cities over the last decade..

Purpose-built student accommodation provides a custom-built and fit-for-purpose accommodation option for domestic and international students studying in Australian cities, which is developed, owned and operated by the private sector.

The professional PBSA sector has only existed in Australia for the last fifteen years - prior to this students only had three accommodation options: private rental, university colleges or home-stay.

The growth of the PBSA sector in Australia follows the trajectory for the asset class we have seen in the UK, US and Europe, which already have mature PBSA markets. In these countries, due to strong international student migration and a domestic culture of leaving your home city to study, student accommodation has grown to be the second largest provider of housing for students outside of the private rental market.

While the sector has long been established in overseas markets like the UK and the US, it is still relatively new in Australia and is in its growth phase. As a result of this, it is not well understood by many in the wider Australian community, although for many

international students it is the first port-of-call when organising to move to Australia for study.

The purpose-built and professionally managed nature of PBSA is how the sector differentiates itself from other housing offerings in the market for Australian students, like home-stays or private rentals. It is available only to students enrolled to study in an educational institution and is designed and serviced around the specific needs of a young and mobile resident population.

Private PBSA is well-suited to students who are new to university and want a mid-term accommodation option. Private PBSA is an all-inclusive and fully-furnished accommodation offering, which makes it well suited to house new university students – particularly those coming from overseas or interstate. It is also built around the model that most students only stay a few semesters or years, and at most the full duration of their studies. It is easy and quick to book a room while still overseas.

The physical layout of the buildings are designed as mixed-use – incorporating retail outlets, communal spaces, gyms, study areas, amenities, and multiple accommodation formats. Private PBSA buildings are in proximity to both universities and education precincts and are usually located close to public transport options.

The role of the private market in PBSA

The private sector, underpinned by foreign direct investment, is the driving force behind the PBSA sector in Australia. In the last fifteen years around 80,000 new PBSA beds have been added into Australian cities by private operators. Including university colleges and on-campus university owned PBSA, the total number of beds across the student accommodation sector is 123,450 as at 2022.

The economic contribution during construction of these developments from 2017 to 2022 was \$5.2 billion. The 10 founding members of the Student Accommodation Council currently have more than \$20 billion in assets.

Private operators with a high degree of experience in operating top-quality PBSA facilities have also been prevalent in entering partnerships with universities, and now operate many university-owned Halls of Residence and Colleges.

As such, the private sector now owns and/or operates around 70% of the PBSA market across Australia. As an established investment-grade asset, the private PBSA sector will continue to grow, particularly as new PBSA facilities better target the changing needs of students.

The vast majority of the investment into Australia's PBSA market is international, in part because of a greater understanding from foreign investors in the asset class, and also because Australian super-funds are limited by the amount of capital they can invest into PBSA due to the *Your Super Your Future* legislation.

The university sector, in a limited number of cases, partners with the private sector to deliver accommodation on campus, or negotiates agreements to reserve beds for their students in closely proximate off-campus developments. In order to accelerate development, further needs to be done to enhance cooperation between universities and the private PBSA sector.

Where some universities have a long history of colleges and on-campus halls, not all higher education institutions have accommodation options. The private PBSA market has responded to a need from students and the education sector to deliver another housing type for largely international university students arriving in Australia to study.

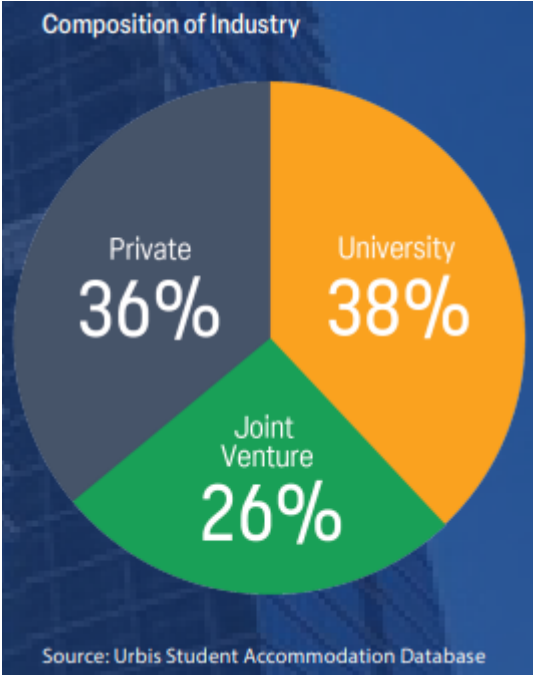
Existing PBSA market & statistics

Existing bed stock: We have surveyed our members and as at August 2024 (Semester Two bookings) there are 8,800 vacant beds across Australian capital cities.

These beds could be deployed instantly by universities insisting that their students take up professionally managed accommodation options rather than leaving students to find their way into the private rental sector.

Pipeline: We have worked with planning consultancy Urbis to examine the current pipeline of new PBSA bed supply in Australia as at June 2024. See below:

Stage	Beds
Under Construction	8,668
Development Approval	16,650
Development Application	6,932
Early Planning	3,246
Total	35,496



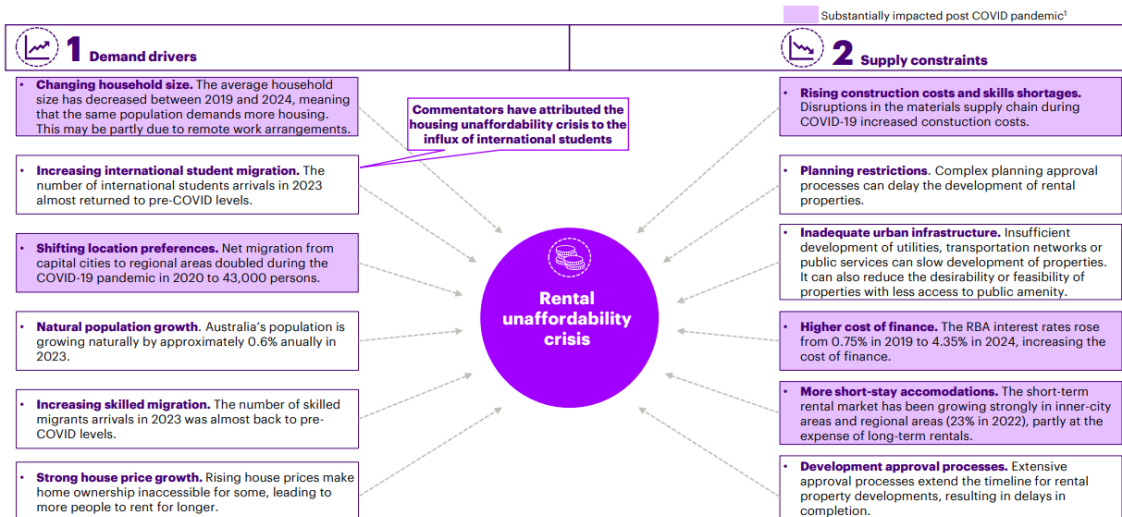
Current state of the Housing Market

The demand and supply factors that contribute to the housing shortage are complex and varied.

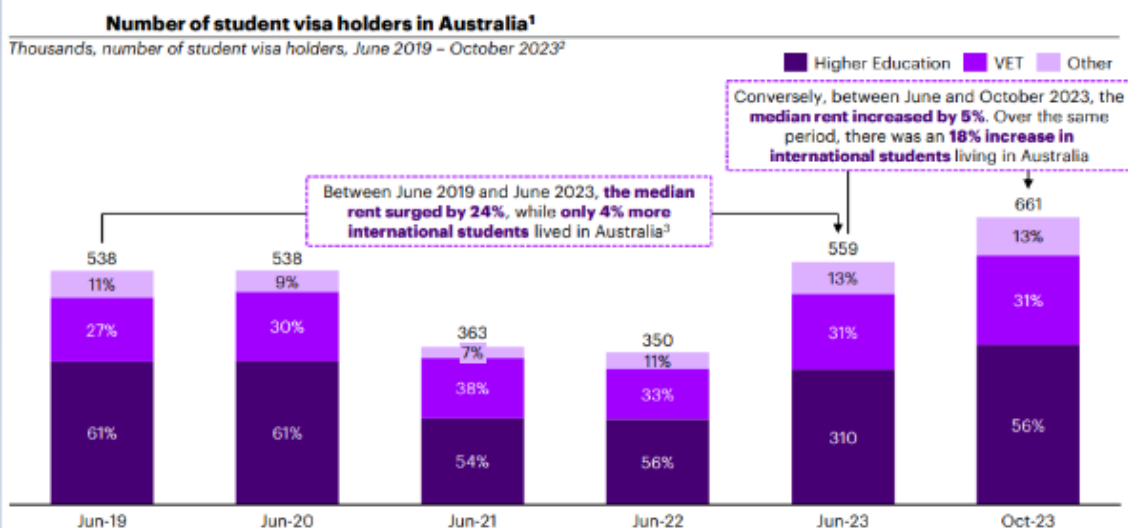
Currently, international students only account for 4% of renters in Australia. As such international student numbers have a limited impact on the broader rental market in Australia.

The nexus between rental costs and international students is not borne out by the evidence as explained in the table below.

Demand for rental accommodation has long outpaced supply, resulting in rental unaffordability; this was exacerbated by COVID



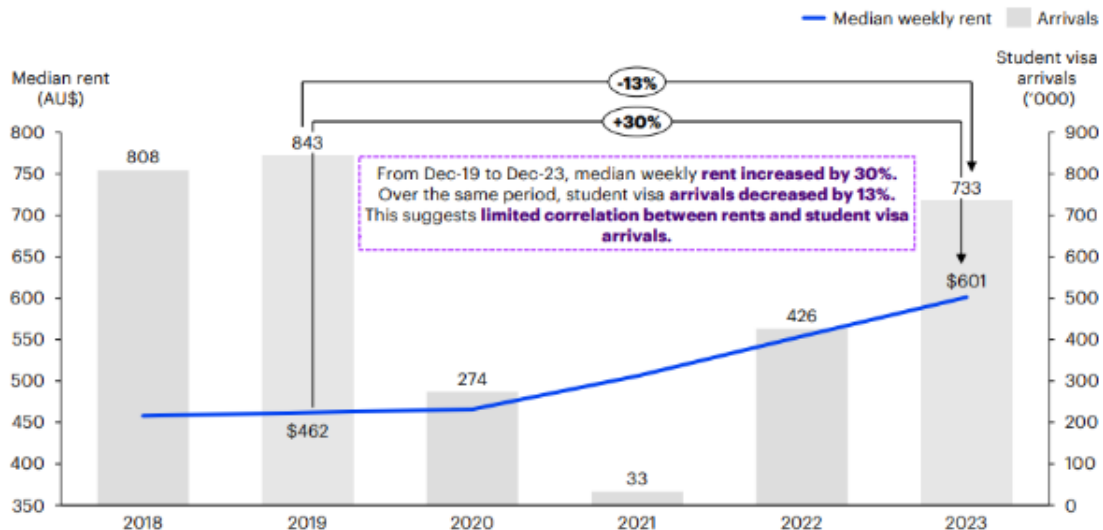
Record numbers of international students living in Australia have not seen rents increase as quickly as they have in the past



More student arrivals do not coincide with rental price increases; more students arrived in 2019 than in 2023, yet rents have increased over same the period

Number of incoming temporary study visas annually versus national median weekly rents

Annual student visa arrivals in thousands (bars, right-axis), national median weekly rents in AU\$, (line, left-axis)



While the overall impact of international students in the broader rental market is low, there is still a large opportunity for students living in private rentals to find their way into private PBSA buildings, which would add rental stock back into the market (especially in CBDs and suburbs which house major campuses).

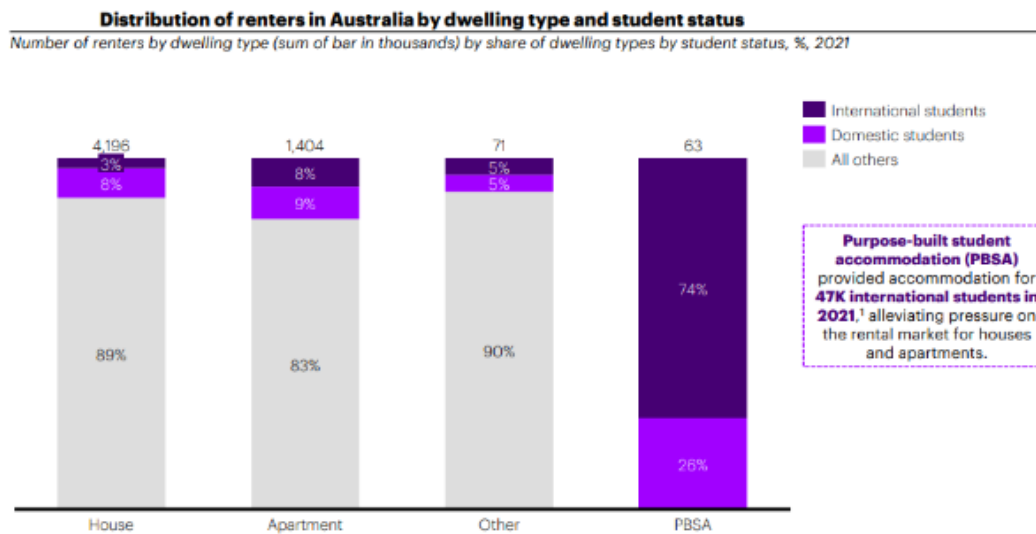
Composition of PBSA tenants

As evidenced by the graph below, PBSA accommodation pulls international students out of the broader private rental market and into purpose-built accommodation. Demand for new rental housing is highest in the detached dwelling segment of the market, an area that international students are underrepresented in at only 3%.

There is significant opportunity for PBSA growth to accelerate and continue to divert demand from the private market into purpose-built housing.

Given that PBSA buildings house exclusively domestic and international students there is an opportunity to remove students from the most constrained part of the housing market.

International students are less concentrated in the market for rental houses which are popular with families, preferring apartments



Planning covenants on individual developments

As part of the planning approval process private PBSA operators are required to rent exclusively to those undertaking formal study. PBSA operators ask for proof of enrolment as part of the rental application. Often, international students struggle in the private rental market as landlords require proof of rental history and income; these requirements are not applicable in PBSA buildings. There are documented examples of adverse outcomes where students struggle to find and hold on to private rented accommodation in the general residential market.

The planning covenants placed upon PBSA also means that their beds can never be made available for non-student renters. This means that the development of PBSA literally only soaks up the demand placed upon the rental market by domestic and international students and does not compete with other housing types.

Comparison of PBSA accommodation costs vs private rental (like for like services)

There has been adverse commentary around affordability in PBSA. The difference in the services provided between PBSA and private housing is significant and creates distortions when simply comparing headline figures. As exists in all markets, there is a premium end to the private PBSA market that caters for non-financially constrained students overseas. These premium dwellings are not illustrative of the broader private PBSA market.

Overleaf is data that shows the median weekly rents for all-types of PBSA across capital cities. These are the median advertised rents (full contract length) for all student accommodation (PBSA, university, colleges etc) by capital cities:

City	Rent
Sydney	\$531
Brisbane	\$450
Melbourne	\$426
Adelaide	\$391
Canberra	\$375
Perth	\$358
Hobart	\$357
Darwin	\$274

Below is a comparison of the weekly costs in the private rental market versus like accommodation in private PBSA developments in Melbourne City, current as at June 2024. After allowing for 2 students to share a private dwelling the costs are very comparable. For the PBSA accommodation, the all-inclusive rental cost includes furnishing, utilities and all of the added services that PBSA provide.

	All PBSA Types Advertised median weekly rent Melbourne City	Private Rental Market Average weekly rent 2 bedroom apartment Melbourne City
Rent	\$ 426	\$ 691
Furnishing		\$ 30
Utilities inc. wifi		\$ 85
Total	\$ 426	\$ 806

Comparison of student service provision and outcomes vs private rental market

PBSA providers offer comprehensive and bespoke care options to student residents, which adds to the unique value of PBSA. Providers work to offer pastoral care to students, including mental health and wellbeing services, study assistance, English classes and social events. Many providers have 24- hour service staff who are able to engage with students and provide support.

PBSA is an all-inclusive accommodation option, which makes it well suited to house new university students – particularly those coming from overseas or interstate. It is also built around the model that most students only stay a few semesters or years, and at most the full duration of their studies.

Current development pipeline

Currently there are 8,668 private PBSA beds under construction with a further 16,650 beds that have been granted development approval. There are also 10,178 beds at earlier stages of the development process. Of these, 6,932 beds are still awaiting development approvals, with 3,246 still at their embryonic stage.

Private PBSA is underpinned by foreign direct investment where sophisticated investors provide capital on a commercial basis. With strong access to capital and given the right environment and incentives the private PBSA sector can accelerate development to achieve the Government's objectives.

If this pipeline were to be increased by 9% this would help to reduce pressure on the private rental market of 0.2%. With increased ambition and an increase in the development pipeline of 19% the reduced rental market pressure would increase to 0.5%.

As at February 2024 there were 713,144 international students studying in Australia. Approximately 60,000 of those are housed in PBSA developments. With less than 10% of the market being filled by private PBSA there is scope to increase the share of international students in private PBSA.

There is significant debate as to the extent that international student migration has contributed to the housing shortage but accelerating the development of new PBSA housing stock can significantly contribute to increased housing supply and reduce international students' reliance on the private rental market.

State taxation contribution

The number of state taxes levied on PBSA is significant, especially when compared to the similar Build-to-Rent sector. The PBSA sector is exposed not only to payroll tax, stamp duty and land tax but also in many cases must contend with high foreign investor taxes (called the absentee owner surcharge in Victoria). For example, in Victoria, state taxes account for an average of 31 percent of the total operational expenditure of a private PBSA building.

Recent increases to the foreign investor land tax surcharge in the Queensland State Budget and increases to asset-class specific council rates in the Brisbane City Council have seen tax bills payable by PBSA owners jump 24 per cent over the course of a single 24 hour period.

These tax imposts contribute significantly to individual developments not being viable and as such stop development from occurring. There is an opportunity for a collaborative approach to be taken that reduces the financial barriers to investment whilst encouraging capital flows that will in turn increase state taxation revenue from PBSA.

Build-to-Rent assets, by comparison, are given land tax holidays, expedited planning approvals and foreign investor surcharge exemptions in different jurisdictions due to their role in adding rental stock and alleviating housing pressures. PBSA is also a

'rent only' building type and provides significantly more beds for residents than BTR due to higher density yet enjoys none of these incentives or pathways.

Actions needed to unlock and accelerate new PBSA supply

There is a clear and present opportunity for PBSA construction to alleviate shortages in the private rental market. Members of the Student Accommodation Council are auspiced by sophisticated foreign direct investors with access to capital to unlock new development.

In order to facilitate new supply in PBSA stock there are a series of actions that the Government can undertake.

The first priority needs to be to fill the approximately 8,800 beds (current as at August 2024) that are available in private PBSA. These beds can provide an injection of new housing stock to provide immediate relief to the private rental market. These beds could be filled by universities insisting that their students stay in professionally managed PBSA rather than the private rental market. This could be a requirement of their enrolment.

Currently, there is often little coordination between universities and private PBSA operators around filling private PBSA developments. When students receive and accept a place to study, their first stop for information are usually university services. Often universities point students towards university owned housing (which is the first asset-class to fill) or the private rental market without presenting private PBSA as an option. Once university owned stock is full students turn to the private market and sign leases which can lock them into private rentals for years. This situation contributes significantly to the 8800 beds that are currently unoccupied.

The second priority needs to see greater coordination between universities and the private PBSA sector to facilitate ongoing institutional bookings, recommending private PBSA as a first-choice housing option rather than the private market and communicating to students available beds upon enrolment. Universities could be required to report annually how many beds they have committed through the private sector and on campus as a mechanism to tie student enrolment to housing outcomes. As an important funding partner of universities, the Federal Government has an opportunity to encourage universities to deliver on the objectives as outlined in the Draft Framework.

Greater cooperation between the sectors could also come in the form of developments underwritten by universities committing to a block number of beds. This would be especially important in regional areas where the financial risks of PBSA development means that projects do not currently get built.

The third and further priorities need to accelerate the development process for further PBSA construction. Over the short to medium term this option can help to increase housing supply as well as support higher international student enrolments in line with the Government's objective of achieving sustainable growth.

Currently, planning decision making processes are conducted at local and state government levels with varied complexities and outcomes. Approval processes stretch into years stifling development and creating conflict with Federal Government

objectives. Planning risk is a significant factor when making PBSA investment decisions.

As part of the Federal Government's engagement with State Governments, the SAC is calling for a memorandum of understanding to provide faster planning approval pathways for PBSA developments. Options to more quickly assess PBSA planning applications through more supportive policies as well as options to be called into state decision making processes to avoid local government bottle-necks will ensure that new housing stock is not being held up in the approval phase.

One simple way State Governments could unlock the pipeline of supply is to review and identify blockages that exist with their Residential Tenancies Acts (RTAs). Currently, private PBSA buildings are subject to RTAs in the various states. These Acts govern the responsibilities of landlords in the private residential market and also capture PBSA operators. This leaves PBSA operators having to comply with laws enacted to protect tenants in the private rental sector, and not designed for the professionally managed student accommodation market.

A lack of distinct definitions of PBSA within RTAs and misunderstanding or ignorance of how amended rental laws impact PBSA operators exists in every state. For example, in QLD recent amendments to their RTA have limited rent increases to once per annum, tied to the room rather than the lease. This leaves operators who manage multiple short-term leases unable to adjust their pricing for different lease types and has, overnight, corrupted their entire online booking platforms, making them vulnerable to prosecution under the Act.

In NSW the RTA has given students the rights to break their leases with only one weeks rent payable - this has resulted in students signing up for a yearlong lease at a discount, and then breaking their leases en masse in order to travel during university holidays without financial penalty. This leaves buildings empty at a time of year when it is impossible to re-fill the rooms with students, costing operators millions. It should be noted that on-campus university accommodation does not need to comply with RTAs.

As private PBSA exists without government support, individual developments must be viable on a commercial basis in order to be built. Often it is state taxation policy that makes new development unviable. Priority must be given to viewing PBSA as an asset class of priority similar to build-to-rent (BTR). This would provide more favourable taxation treatment that would unlock significant new development. Explicitly, the federal and state governments should leverage exemptions from foreign investor surcharges and land tax holidays as mechanisms to encourage development.

Unintended consequences of a reduction in student visas across the PBSA sector

The Government, through the budget and the Draft Framework, have provided policy direction to tackle the housing shortage that exists in Australia. There is a significant amount of goodwill and positive policy intent. There is, however, real risk of negative unintended consequences where policy settings could have a negative impact on housing supply, state and federal taxation outcomes as well as the broader economy. As outlined below the private PBSA sector is projected to deliver 4,000 construction

jobs, 900+ ongoing jobs and \$250m per annum in Gross Value Add to the national economy over the next five years.

Any significant cuts to the current international student migration intake will see a loss of investor confidence in PBSA as an asset class and cause the investments outlined to be delayed or cancelled. The sovereign risk associated with an unstable policy environment impacts not only student’s perception of Australia as an education destination but also impacts investor confidence. In this instance, a reduction in demand would be met with a reduction in housing supply, working against the Government’s objectives and also potentially lead to a further tightening of private rental supply.

As a highly regulated and taxed industry the SAC is advocating for a less constrained market that allows new PBSA to be built in an environment with strong investor confidence and supportive regulatory and financial settings.



Areas for further clarification

Through the consultation process the SAC is seeking urgent clarification around the term ‘new’ within the Draft Framework. The goal must be to see access to new beds made available for international students rather than simply new developments. Taking a broader approach will help provide more options to meet the Government’s objectives.

The Government also needs to define regional as it is meant in the Draft Framework. The housing shortage is not uniform across the country and whilst there is a focus on major centres consideration needs to be given to what role regional universities play in meeting the Government’s objectives. Any potential measures which try and force the private market to enter into regional locations that do not stack up from a commercial perspective will be met with resistance.

Recommendations

There are a number of changes that the Federal Government can initiate in order to increase the supply of new student accommodation stock and ease tightness in the broader residential rental market. There is a balancing act required to encourage new investment rather than destroying confidence and reducing the supply of new PBSA housing. Many of the levers required to accelerate development lie with state and local governments and as such strong collaboration is required between all tiers to achieve a positive outcome.

The recommendations as outlined provide a pathway to balance the Government's objectives around sustainable growth in international student numbers together with supporting jobs and growth in our economy.

The key to bringing on new supply in the private sector hinges on reducing financial and planning risks that currently stifle investment in PBSA.

Recommendation 1

That the Federal Government recognises that creating a hard cap on international student numbers by university is likely to lead to a loss of confidence in investment in PBSA which in turn will further exacerbate the housing shortage in Australia.

Recommendation 2

That if the Federal Government does impose a hard cap on international student numbers that the baseline be set at current international student numbers with an ability to grow over time and as student accommodation beds are added by the university and private sector.

Recommendation 3

That priority should be given to utilising the existing 8,800 available beds within PBSA buildings to provide an immediate housing option for universities and an injection of new housing stock into the private rental market.

Recommendation 4

That greater cooperation exists between universities and PBSA operators to increase the profile of existing PBSA and supply of new PBSA housing including universities providing commitments to underwrite new developments.

That universities work with accommodation providers to insist students live in professionally managed PBSA as part of their enrolment.

Recommendation 5

That Federal, State and Local governments provide accelerated development pathways for PBSA housing to increase the supply of new housing into the private rental market.

Recommendation 6

That Federal and State governments identify PBSA as an asset class of 'priority' and align their planning treatment of PBSA with that received by BTR, recognising that both asset classes help to alleviate the rental housing shortage in Australia. Commit to identifying barriers to the growth of the asset class at state level including quicker planning, land tax holidays and exemption from foreign investor taxes.

Recommendation 7

That Federal and State governments remove the financial barriers to increasing PBSA development in line with BTR developments. As part of an Memorandum of Understanding between federal and state governments, that exemptions from foreign investor surcharges (that are levied in Victoria and Queensland) and land tax holidays are considered.

Recommendation 8

That Residential Tenancies Acts, which govern the operations of PBSA buildings nationally, be reviewed on a state-by-state basis to identify red-tape and unintended regulatory consequences limiting the growth of PBSA in different jurisdictions. In NSW, that the NSW State Government use regulation to exempt PBSA from the 1 week break-lease clause in the Residential Tenancies Act.