



Bill Spurr
International Student Taskforce
DFEEST Higher Education Directorate
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Dear Mr Spurr

The Property Council of Australia (SA Division) is pleased to provide the following submission to the International Student Taskforce. International students are an important part of the State's social fabric and its future economic prosperity. It is therefore vital that the State does everything possible to make the international student experience a positive one.

The Property Council of Australia is the peak body representing property owners and developers spanning all asset classes including commercial, industrial, retail and residential. In total, the Property Council represents the interests of more than \$33 billion invested in property in South Australia.

In developing this submission, the Property Council has canvassed the opinions of our key members delivering or considering student accommodation as an investment asset class, as well as discussing issues with our Residential Development, Planning and Urban Development and Corporate and Commercial policy committees.

This submission is separated into two sections, the first identifying issues and barriers, the second suggesting solutions and outlining some underlying preconditions needed to maintain and enhance Adelaide's appeal as a study destination. Each recommendation has the aim of delivering more student accommodation product onto the market to meet the demands of the educational institutions and students themselves.

Issues and barriers

The key issues with delivering student accommodation developments are:

1. yield competitiveness against other asset classes;
2. perceived 'peakiness' of returns (fluctuating student accommodation vacancies);
3. planning issues; and
4. community awareness of the needs of and benefits from attracting international students.

While there is widespread industry awareness that the number of student accommodation dwellings is far below that required by the market, issues and barriers to development currently prevent more dwellings from being delivered. This submission is designed to identify the barriers and provide solutions to rectify the situation to ensure the State can extract maximum economic benefit.

Student accommodation investment yields typically sit below that of other asset classes such as commercial and industrial assets. This gap, while exacerbated by the implications of the global financial crisis, makes investment in student accommodation developments comparatively unattractive.

The yield differential is largely a consequence of low rental rates for dwellings combined with significant outgoings. Rental rates are market driven meaning that to improve yields, developers need to increase the number of dwellings in a development. Furthermore, issues such as open space levies can significantly add to the cost of delivering such developments.

In addition, there is a perception that student accommodation is a 'peaky' market in that the development may not be fully leased. This issue has been overcome in several developments by way of universities taking headleases over the development. This has ensured certainty behind the project and steady returns for the investor. However, current indications are that the educational institutions are reticent to undertake more headleases over new developments.

The third area that requires reform is the way in which student accommodation is treated under the Adelaide City Council Development Plan. In most Council Development Plans, student accommodation is treated as residential development, which does not take into account the unique nature of student accommodation market, for example floor space requirements. This must be rectified and Councils need to be educated on the importance of delivering more student accommodation stock onto the market. This situation is not assisted by Councillors publicly describing student accommodation developments as, amongst other things, 'suicide boxes'. This type of commentary indicates a failure to understand the needs of the students and the benefits they provide the State as a whole. Comments of this sort potentially dampen overseas interest in studying in South Australia and might slow investment in the sector, further constraining already limited supplies of dwellings.

Finally, although the social and economic benefits of international visitors, particularly students, are not in question, some public statements and behaviours in other Australian states have not belied these benefits and have in some cases run contrary to Australia's image as a pre-eminent education destination. Similarly, some recent local comments on proposed student accommodation developments presented a negative external view of the burgeoning international student accommodation industry.

Solutions

The solutions presented below are designed to be at low or no cost to the State but if implemented will ensure certainty in developing student accommodation to meet the needs of the market and the State.

1. Headleases

One of the biggest barriers to developing student accommodation is the ability to obtain finance; this situation has come under further pressure with the Global Financial Crisis. The difficulties in obtaining finance could be easily overcome with increased willingness for education institutions or Government to take headleases over these developments. There are three opportunities in this area:

- a) for educational institutions to commit to more headleases as has been done on limited occasions;
- b) given community recognition of the social and economic importance of attracting international students, the State Government could step in and take headleases over developments to ensure more student accommodation stock is added to the market; and/or
- c) for Adelaide City Council to take headleases in its own right.

If either or all of these three options were achieved, there would be greater incentive to develop student accommodation developments in Adelaide.

2. Taxation and Council Rates

Considering the overall economic importance of international students to the State's economy, both State and Local Governments should consider providing direct financial incentives to the developers of student accommodation.

Grants may be the most appropriate form of incentives, given they would assist in improving the yield potential of these developments.

3. Planning

Council Development Plans must be amended to include a category for student accommodation and Councils themselves educated on the need to deliver more student accommodation stock onto the market.

The short to medium-term accommodation pattern of most student housing does not necessitate the same level of amenity as apartment, detached or semi-detached living. While comfort, safety and quality of life should never be compromised, the reality of student life does not necessarily require the same ratios of open space and so on. Further, the general location of these facilities within the central business district provides ample opportunities for social, sporting and other recreational activities.

On the basis of this same argument, special consideration could be given to student development projects on barriers to investment such as open space contributions.

Finally, planning mechanisms pertaining to student accommodation developments must be streamlined and made flexible to allow for complex and previously untested project models. A planning and development model for student accommodation may include faster development assessment, greater density bonuses, and reduced car parking requirements. There might also be value in further study into current building height restrictions (outside the Civil Aviation Safety Authority's Obstacle Limitation Area) as greater densities could provide the incentive for alternative development models.

4. Promote a supportive community and city

The State Government, in conjunction with its other State and Federal counterparts should consider an internal public awareness campaign that operates on two levels: firstly, to make international students feel welcomed and appreciated and secondly, to encourage the public to be supportive of international students and to create an awareness of students' needs and the social and economic benefits they bring to Australia.

The first component of this campaign should tap into existing State and Federal programs, such as the international promotional campaigns and expos that are currently focused on attracting skilled migrants. International students could also be offered a State-supported 'on-arrival' settlement service similar to that provided for skilled migrants.

5. Finance

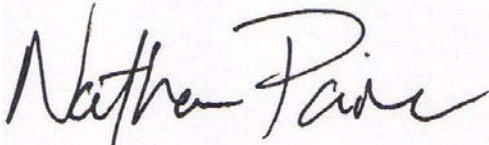
Most banks will not lend on dwellings less than 50 square meters which directly discourages 'mum and dad' investors from purchasing student accommodation dwellings. If financial institutions were to treat this asset like any other residential development, there would be greater impetus to develop more dwellings. State and Local Governments should work with the property sector to find ways to encourage the banking sector to support investment in this growing asset class.

Conclusion

The State Government must be congratulated for its drive to promote South Australia as a hotspot for international student education; a drive that has seen significant growth in the number of international students choosing Adelaide as the place to live and study. These students are positive from both a social and economic perspective and as such we need to ensure their experience in South Australia is second-to-none. A significant part of this experience relates to their accommodation requirements and the Property Council has recommended key areas of reform to ensure adequate stock is added to the market to meet demand.

We would be happy to meet with the International Student Taskforce to elaborate on any areas covered in our submission. If you would like to discuss any aspects of our submission, please do not hesitate to contact my office on 8236 0900 to arrange a meeting.

Yours sincerely

A handwritten signature in black ink that reads "Nathan Paine". The signature is written in a cursive style with a large, prominent 'N' and 'P'.

Nathan Paine
Executive Director
Property Council of Australia (SA Division)