



HOW TO BENEFIT BY INVESTING NEAR AUSTRALIAN UNIVERSITIES AND COLLEGES

INTRODUCTION AND OVERVIEW

Many Chinese, Hong Kong and International buyers keen on an overseas education for their children are buying residential properties in Melbourne in large numbers, despite Beijing's tightening controls on Capital outflows.

Many Hong Kong and Chinese buyers are extremely motivated by the Education that Australia offers from Junior School through to Universities and especially in Melbourne.

Buyers from all around the world flocked to the Australian property market after the 2008 global financial crisis when Australia was seen as the world's safest haven. This trend shows no sign of slowing down anytime soon.

AUSTRALIAN DOLLAR

In addition the Australian dollar is approximately 14% weaker against the Chinese Yuan compared to 3 years ago, 26% weaker against the Hong Kong dollar and 20% weaker against the Singapore Dollar which is also contributing to increasing interest among HK and Chinese parents and investors because school fees and university fees are very expensive in Australia.

It is a significant saving for investors and parents interested in educating their children not only in the school fees, but for accommodation too.

For example, for a parent buying a luxury Melbourne apartment in the CBD it would have cost around HK\$4.89 million in 2014, but with the drop in the Aussie dollar today it costs just HK\$3.6 million.

EDUCATION IN AUSTRALIA

Hong Kong and China between them send tens of thousands of international students to Australia each and every year. International student numbers in Australia grew by 15 per cent year-on-year in the first quarter of 2017, with 520,737 enrolling in Feb/March 2017.

FASTEST GROWING INTERNATIONAL STUDENT CORRIDORS FOR AUSTRALIA



 STUDENT.COM

Student bookings to Australia from these source countries have increased the most between the 2015 booking season and the 2016 booking season so far.

Education generated AUD\$22.4 billion in income for the Australian economy (A\$15 billion when only higher education students are considered).

The growth in student numbers was highest among Chinese students, with numbers rising by 20,000 to 140,000 (17 per cent) between March 2016 and March 2017.

Weighing their options

Tertiary education, international students

As % of total in country

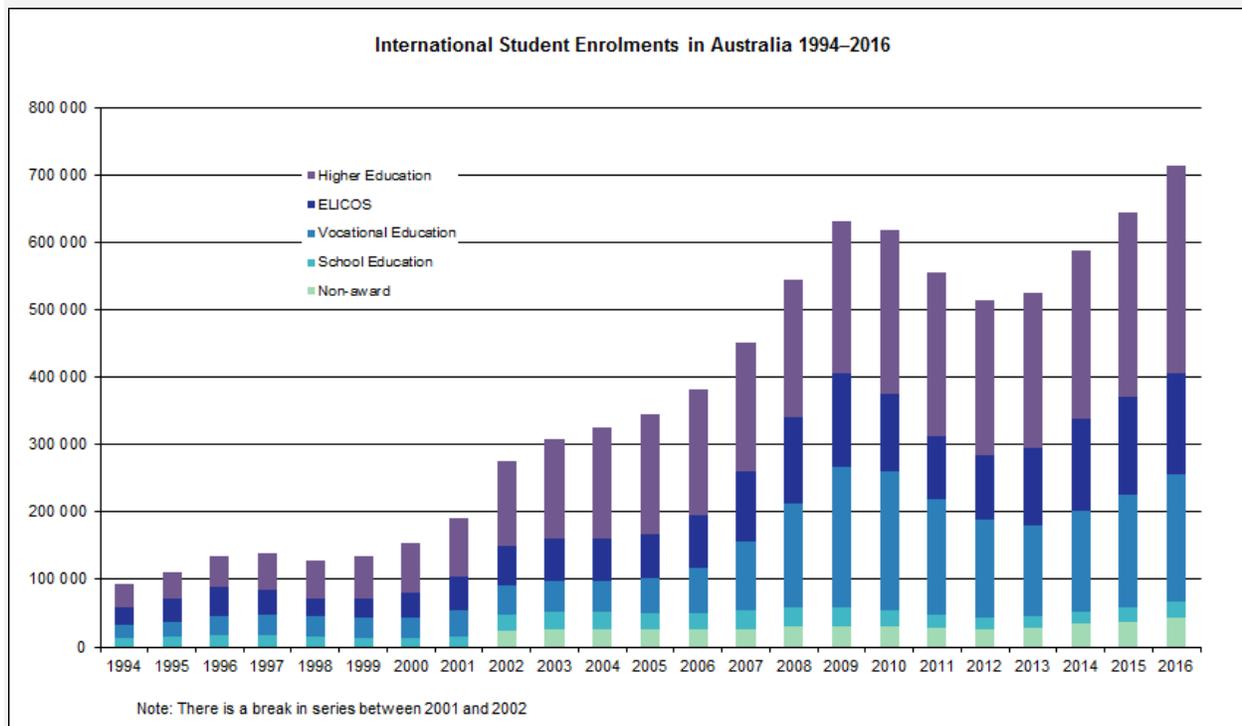


Source: National statistics

*Non-EU †Enrolments, post-secondary

Belinda Robinson, Chief Executive of Universities Australia, said that the growth figures highlighted the enormous contribution of Australia's high-quality university system to national prosperity.

"We know that international students are attracted to Australia by the excellent quality of the education we provide and the calibre of both teaching and research here," Ms Robinson said.



BUYING PROPERTY

The families of these students represent a huge demand for Australian properties particularly in Melbourne, both for their own use and for investment.

"Many overseas parents have sent their children to Melbourne when they were young. The value of the apartments their families bought to save rent has risen so much that it covers their tuition by the time they graduate from university" said Mike Bentley, Managing Director of Citylife International Realty in Hong Kong.

It is estimated that around 80% of all parents will try to buy properties in Melbourne if they are sending their children through junior, middle, high schools or universities.

However, many do not have the deposit, or cannot secure a mortgage, or simply cannot find a property that is ready now, approved for sale to foreign buyers, and in the right location.

It's a needle in a haystack situation in Melbourne.

Simply put, many overseas buyers THINK they will simply buy a property as the prices are still low on a world scale, but they then are very surprised to find how few new developments there are within 15 minutes of major universities.

And virtually none have unsold stock available for purchase (Foreign buyers are not allowed to buy secondary properties without special permission)

Chinese and Hong Kong parents always favour apartments rather than free standing houses for security and safety reasons.

Apartments come with high security entrances while freestanding houses often pose security and burglar risks. This is true not only of Australia but most countries.

High quality, 2 bedroom, 2 bathroom apartments with car parks, resort facilities and security in Melbourne near the Universities and the technical Colleges and the City Centre only cost around \$600,000 (HK\$3.6 Million , CNY2.6 Million, SGD\$619K, MYR1.8 Million)

MORTGAGES

In addition investors are usually able to secure mortgages in Australia for up to 70% of a property's value, providing they can prove the source of their deposit, and can show three years tax returns.

RETURNS AND COSTS

Many buyers are investing in the property market in the hope that the returns would cover the cost of tuition and university fees.

If they invest wisely, capital appreciation on a typical new 2 bedroom apartment can achieve a profit on the apartment of between AUD\$100,000 - \$130,000 in major cities such as Sydney, Melbourne and Brisbane over a span of 4 years which should be more than enough to cover the child's tuition.* There may be a currency gain too.

And that does not take into account the rent savings, or renting out a spare bedroom for extra money.

The most popular are generally one bedroom or two bedroom apartments particularly in Melbourne where one of the parents or relatives can come and stay in the second bedroom with the child during their studies as needed.

Michael Bentley said the value of Melbourne's apartments market has increased dramatically in the previous 5 to 15 years. It is now \$10,000 AUD dollars per square metre for a new apartment. Just 5 years ago it was around \$8,100 psm, 10 years ago \$5,800 and 15 years ago was \$4,600.

A recent investor stated the following:

"The average apartment price is \$10,000 per square metre, the average size of a two bedroom flat is 70 square metres with a total mortgage of Australian dollars \$490K assuming a 30% down payment and a 6% interest rate on a 30 year payment the average repayment is only slightly more than the average rent. If sold after 8 years you would receive AUD\$258,000 in tax free capital growth assuming a low 4% per year. This should easily cover 4 years of tuition at around AUD\$35K per annum Uni fees plus provide free housing"

Realestate.com.au shows that a typical two-bedroom flat on average in Melbourne CBD is listed at a rent of around AUD\$2,500 per month, whereas the repayments on a \$600,000 flat at 6% interest and a 70% mortgage would be \$2,518 per month.

Another student said:

"My parents bought a two-bedroom flat earlier this year in Melbourne. We got a 65% mortgage and paid \$550,000 for the Melbourne CBD flat. I lease

the second bedroom to another student. I aim to save all the rent money which I used to pay” he said.

In a blog post, student.com CEO Luke Nolan said “Australia has the biggest growth in student accommodation anywhere in the world – it’s an undersupplied market with huge demand.

“In all major Australian metropolitan locations, there is currently less than one bedroom of purpose-built student accommodation for every ten students.”

RENTAL FOR STUDENTS

As the Uni year starts each year around Australia many overseas students will be advised that they have been awarded a place in universities like Melbourne University and RMIT. They will be excited to live in Australia.

Sadly, many will be simply unable to find decent rental accommodation due to the very low rental vacancy rate in Melbourne at just 1.8%, an 18 year low.

Think about it this way. In the Melbourne CBD as at 30 November 2017, there were just 419 total apartments available on the rental market. That includes older apartments, new projects, studios, 1, 2 and 3 bedroom units. Clearly there is little supply of EACH individual type.

So if 520,000 students enroll AGAIN this February (2018) like last year, and Melbourne takes its usual 30% of the total for Australia each year let’s assume **156,000 students** come to Melbourne in February looking for accommodation. **And there are just 419 apartments to rent!**

The truth is that many will be unpacking their suitcases in cramped student housing complexes, others will be sharing roach infested old houses, and others in low quality tiny studios. Sad to say, but true. And that is ONLY if landlords will even accept them.

Students are being turned away in droves as landlords say they can rent to young professionals and so why should they rent to students without any rental history or track record? Students are the least favoured tenants.

With new government legislation expected to dramatically reduce the supply of new apartments in Melbourne the **rental costs for students** could increase greatly over the next few years.

DON'T BUY STUDENT HOUSING

Student housing in cities like Melbourne does not come cheap. On average on campus room and board for a tiny studio around 20-30sqm rents for around \$1,700 per month. A larger one with 2 tiny bedrooms will rent for around \$2,200 per month.

This begs the question: **why not buy student housing on Campus for your children?** Property experts confirm that student housing in major Australia cities can be one of the **worst investments** you can make.

There are virtually no bank loans available for these properties as there is little or no resale market, many are tiny rooms, smaller than even in Hong Kong, they are expensive on a square metre rate, and thousands of similar ones on the market.

In fact, most resale for significantly less than the original price paid. And that's if you can ever find a buyer.

Instead, why not purchase a spacious off-campus freehold apartment for junior during University and hopefully sell it after graduation and make a profit?

HONG KONG BUYERS

That's what one buyer from Hong Kong did recently when he bought a 2 bedroom apartment in a newly completed building near the Flagstaff Gardens in a quiet end of the Melbourne CBD.

His daughter enlisted a friend as a flat mate to help subsidize the cost. The buyer said he paid \$590,000 for the apartment and hopes to be able to sell it for at least \$700,000 after 5 years.

He admitted that he is not trying to make money on the whole thing but said that finding rental accommodation for his daughter was a nightmare in Melbourne.

As long as he could afford to buy in a safe and secure investment property market like Melbourne and he didn't lose money, and his daughter had some place to stay without having to pay a landlord, without a property inspection every 6 months, and without risking eviction, he is happy.

He said his daughter wanted to have a pet like a cat and most landlords are anti this. If he owned the place his daughter could have a pet and a flat mate and not have any eviction risks.

He said:

"Well, I did not buy for investment. But now I have researched the market I would not be surprised if I end up making a profit from this venture. More importantly my daughter is safe and secure in a great city in an apartment that I own. So we can spend money on decoration and furnishing, it has a second bedroom she can rent out. Or my wife can come and visit and stay with my daughter. It's a win-win for everybody."

Property analysts agree that buyers should not just bet on the real estate market growing and blossoming when they buy an apartment for their child to study, but even the saving in rent could make it a worthwhile exercise.

*Assume 4% and 5% growth in values.

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