

HD Corporate: Centurion expands student housing portfolio amid tougher fight for workers' dormitories

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The Manchester Student Village sits next to a large open carpark. Its compact, utilitarian flats, with windows fronting a narrow street, are not the most inspiring type of lodging. In greener environs, however, housing units in Cathedral Campus in Liverpool have large windows overlooking lawns and trees. In both cases, Centurion Corp CEO Kong Chee Min hopes the relatively cheap rent and prime location, within reach of the tens of thousands of undergraduates at the nearby universities, will bring him good returns.

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Centurion, which has a market capitalisation of around \$550 **million**, is buying Manchester Student Village, along with two other student accommodation blocks in Manchester and Cathedral Campus in Liverpool, for £77 **million** (\$162.5 **million**). All the buildings cater to students at the nearby universities, and have been operating close to full occupancy, Kong says. The properties are run by MCR **Property Group**, which manages the student flats as well as **residential, commercial** and industrial units in the UK. The **acquisition**, with 1,906 beds in total, is expected to contribute to Centurion's earnings from 4Q2014, after it is completed on Sept 1.

Along with the 459-bed RMIT Village in Melbourne acquired last year, the move will also further diversify Centurion's portfolio of properties away from workers' dormitories, a sector in which Centurion has a strong presence, but that is increasingly competitive. Student housing provides an alternative and stable income stream, the **company** says. "This is the starting foothold that we want," Kong tells The Edge Singapore. "We're building up our capability, which in future could include development works as well."

Centurion Corp was once known as CD and DVD maker SM Summit Holdings. It moved into the accommodation business in 2011 through a \$95 **million** reverse takeover (RTO) as opportunities in the disc storage business started to decline. It initially focused on foreign workers' accommodations. Through the RTO, Centurion became the owner and operator of the Westlite dormitory at Toh Guan, and a 45% partner in a joint venture with building contractor Lian Beng **Group** that owns three plots of freehold land in Mandai, which have been developed into workers' dormitories and a fully **sold** industrial ramp-up building.

The **company** quickly built up its portfolio, which now has some 23,500 beds for foreign workers in Singapore. It is building a fourth dormitory in Woodlands to be completed by mid-2015 that will cater for non-construction workers and add 4,100 beds to its portfolio. Centurion had also set up a joint venture with another construction **company** to acquire and develop six dormitory projects in Johor.

Workers' housing restricted

There are some 40 commercially operated dormitories in Singapore on land leased by either the Building and Construction Authority or JTC Corp, which therefore controls the supply of such housing. These accommodations cater for construction labourers as well as workers in the manufacturing, **oil** and gas and marine sectors. At the time of its RTO, Centurion noted that the demand for workers' accommodation was more than three times the supply.

Since then, several other players, mainly companies in the building sector, have muscled in on the foreign worker dormitory business. Some of the dormitory operators are structural steel specialist TTJ Holdings and engineering and **property** developer Tee International, which owns the 4,000-bed facility at Marina South. In October 2013, **property** developer and contractor Wee Hur Holdings took a 60% **stake**

in a **company** that had just finished a 16,800-bed dormitory in Tuas South. Most recently, a joint venture between TA Corp, King Wan Corp and SKM Development won the tender to build a 9,200-bed workers' dormitory in Tuas South for \$114 **million**. The development will be located on a 20-year leasehold land awarded by JTC. TA Corp is the listed entity of construction **company** Tiong Aik, and King Wan provides mechanical and electrical engineering services to contractors in Singapore.

Coupled with stringent controls by BCA and JTC, the workers' accommodation sector is proving uncomfortably tight. "Over the last year, the landscape for workers' accommodation has changed," says Tony Bin, Centurion's executive director for the accommodation business. "There are many players now who were not previously in the foreign workers' accommodation industry. And I think the playing field is slightly different now. But, for us, we have this platform that we can use to grow overseas."

Centurion has since expanded its accommodation business beyond Singapore, acquiring plots of land in Johor and Jakarta to develop workers' housing. It has five operational workers' dormitories in Johor and expects to open two more next year. It is holding another piece in Port Hedland, Western Australia, which it acquired in September 2012 and where it planned to develop short-stay accommodation for workers and businessmen in the region's **mining** industry. Taken in total, Centurion's portfolio will comprise more than 53,000 rooms by end-2015.

Housing students

Citing strong demand in the sector, Kong expects about half of accommodation business revenue to eventually come from student housing. He says student housing rents, while relatively low at about £100 a week, have typically increased 3% to 5% y-o-y.

According to global **property** market consultant Jones Lang LaSalle, student housing had become a mainstream global asset class worth some US\$200 **billion** at end-2012. This follows the growth in enrolments in tertiary education institutions worldwide, which expanded 68% in the 2000-to-2011 period. In 2015, 263 **million** enrolments are expected, up from about 165 **million** in 2011.

The most popular cities are in the US, the UK and Australia. International students make up a big part of the enrolments; international enrolments in the UK for the first part of this year grew 7% from last year. In Australia, there were nearly 411,000 international students last year, an increase of 2.3% y-o-y. About 45% of these students are aged between 20 and 24, and more than half hail from Asia, including **China** and India.

In a 2012 report, Jones Lang LaSalle noted that student housing outperformed other **commercial** real **estate** sectors in the US and the UK, delivering total returns of 11% to 15%. Investors have found the sector attractive because of the high demand for accommodation, which outstripped supply, and the resilience of the higher education sector to cyclical economic

downturns.

Interestingly, a recent survey by London Central Portfolio (LCP) showed that apartments in prime central London districts are increasingly being leased out to undergraduates instead of investment bankers. According to the **property** fund, the number of independently wealthy foreign student renters has doubled from 2006 to account for 29% of the sector in 2012. The growth has continued, and in the last 12 months, students have represented 41% of new tenancies signed. Of course, the London addresses command significantly higher rents than the Manchester or Liverpool hostels, however nice they may be. LCP says the students outbid the corporate sector to pay £600 a week.

"London has become a magnet to these privately wealthy young adults who are looking for top-quality accommodation to go with their top-drawer education," the LCP report says, noting that more growth opportunities lie ahead, with 82% of affluent **Chinese** families planning overseas education for their children.

Student dorms to grow

Is housing students going to prove even more lucrative than workers' dormitories for Centurion?

Certainly, the expectation of the growing numbers of international students entering the UK and Australia has spurred investment in student accommodation in recent years. In January, Singapore's GIC announced that it had formed a joint venture with Macquarie Capital to acquire a majority interest in Australian student accommodation **group** Iglu, which has three off-campus housing projects in Sydney and Brisbane. Individual units are also being **sold** to investors. In March this year, a two-day investment sales event at an Orchard Road **hotel** saw investors snapping up units from about £53,000 (\$111,816) after being guaranteed an 8% yield for five years.

But yields from overseas student accommodation are not necessarily better than those from workers' housing in Singapore, Centurion's Kong and Bin acknowledge. "Student accommodation in places such as the UK and Australia attract a lot more international players. So, there's a levelling of rates," Bin explains.

Whatever the case, with just workers' housing, the accommodation business unit generated \$5.4 million in earnings in 1QFY2014, or 32% more than the year before.

UOB Kay Hian has raised its FY2014-to-FY2016 earnings forecasts by 3.8% to 14.1% to take into account income from student accommodation. "Despite the favourable operating dynamics of the workers' dormitory market, stiff competition from dormitory assets has affected Centurion's ability to expand its local portfolio aggressively while maintaining a reasonable return on investment," analyst Loke Chunying writes in a July 17 note. "Gradual addition in supply and/or a downturn in Singapore's economy may reduce the flow of foreign labour, which may affect future rental income [from workers' dormitories]."

Loke expects student housing, which will represent 5.8% of Centurion's portfolio after the acquisition, to contribute about 30% of FY2015 earnings. The brokerage has hiked its price target by 8.7% to \$1, with a "buy" recommendation.

Centurion's share price has gained nearly 8% since the announcement, and is trading at 16 times forward earnings.

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