

**Asia
Pacific
Education**

**Learning
Through
Crises**

Keppel Capital watch

November 2020

Photo credit: Malvern College Chengdu

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Executive summary

The education sector has proven to be resilient in past downturns. The K-12 segment in Asia had faced the prospect of expatriate students withdrawing from international schools, but schools often replaced them with locals. When the economy recovered, the expatriate students also returned, leading to higher demand than before. Besides Asian culture valuing education, the demand in the private K-12 segment in Asia is driven by an expanding middle class, urbanisation, rising female labour participation rate and accommodative regulatory policies.

The higher education segment often displays counter-cyclicity during economic uncertainties as individuals seek to better prepare themselves for changes in the labour market through re-skilling and up-skilling. This was evident in the US and China during the Global Financial Crisis.

In the latest COVID-19 crisis, the K-12 segment in Asia is expected to display the same resilience. Travel restrictions and school closures disrupted classes during the early months of the pandemic, but online learning has complemented classroom work when schools progressively reopened. Demand from affluent local families for a place in international K-12 schools remains robust as parents aim to provide their children with a head start via a western-style education.

COVID-19 has also affected higher-education institutions which have sizeable foreign student cohorts. To make up for the potential enrolment shortfall, universities can leverage on local demand and on government policies to encourage continual education for working professionals or post-graduate courses.

Despite healthy long-term demand drivers, weaker school operators may still run into problems as the pandemic ensues, as with other industries. There may be acquisition opportunities for the more established operators. Others may consider going asset-light to focus on their core education business and build up financial buffers, presenting real estate investors with opportunities to structure sale and leaseback agreements with them.

The desire of Asian parents to provide the best education pathways for their children will only grow. Underpinned by strong long-term demand drivers especially in Asia, education real estate is expected to remain a resilient asset class in the post-COVID world.

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Introduction

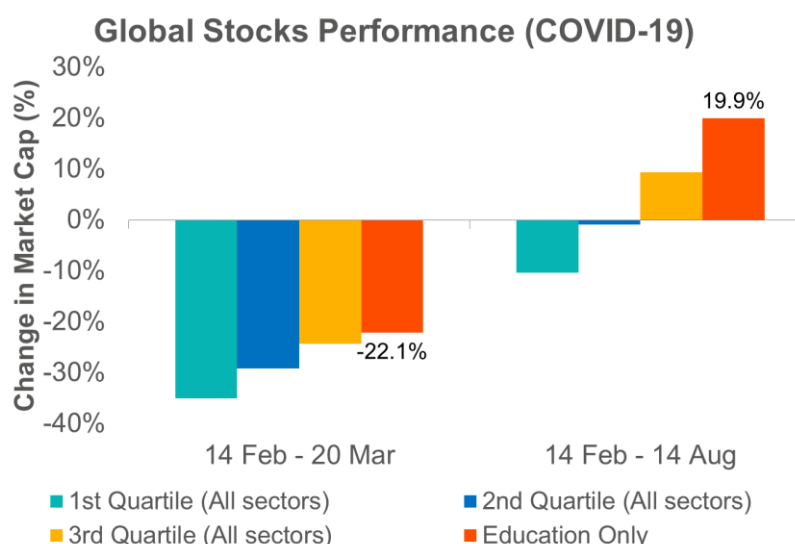
In our last paper on the private education sector in APAC titled “[Knowledge is Power](#)” in November 2019, we highlighted the strong demand drivers underpinning the growth of this emerging asset class. In this report, we examine the resilience of the sector during past crises and today’s COVID-19 pandemic and discuss the likely trends when we enter the post-pandemic world.

Learning never stops

The education sector has proven to be a resilient one in past downturns. Fundamental education is usually deemed as non-discretionary spending, while higher education and vocational training tend to be in greater demand during times of economic uncertainty as individuals seek to better prepare themselves for changes in the labour market with more relevant and updated skills.

This has translated to steady revenues for many of the major public-listed education operators over the past decade, with some enjoying robust growth. While COVID-19 may be a first-of-its-kind crisis, education stocks have collectively outperformed the rest of the market on a global basis, returning 19.9% between mid-February and mid-August 2020 compared with the median stock return of -0.9% over the same period (see Figure 1). This suggests that public market investors view the education sector more sanguinely than other sectors and are likely pricing in steady earnings outlook for the sector.

Figure 1: Education stocks outperformed throughout COVID-19



Source: Prof Aswath Damodaran, KepCap Research

Similarly, with K-12 international private schools and universities generally having good visibility of long-term revenues and stable cash flows due to relatively sticky enrolments and long course durations, strong operators make reliable tenants and underpin the defensiveness of education as a real estate asset class.

K-12 emerged stronger from past crises

The K-12 segment has proven to be a resilient one in past downturns. According to ISC Research, even though student enrolments at some international schools were impacted during the Global Financial Crisis (GFC) in 2009, the international school sector as a whole withstood the global downturn. School enrolments kept increasing and new schools continued to open in the aftermath although at a slower rate than originally expected as some development projects were delayed or scaled back. Planned developments with later completion dates were largely unaffected.

Expatriate families who had their packages terminated withdrew their children from international schools, only to be replaced by local children from wealthy families who had been waiting for places to become available (except for places like Singapore where enrolment of local students into international schools is highly restricted). In Asia where formal education is valued extremely highly, local parents typically only withdrew their children from international schools as a last resort. Even though they might have been financially impacted as well by the GFC, many local parents kept their children in international schools after the recession.

According to ISC Research's estimates, the international schools market grew substantially and steadily after the GFC, experiencing a compound annual growth rate (CAGR) on student enrolments of 6.7% between 2010 and 2020, and a CAGR on fee income of 8.5% between 2010 and 2020.

Subsequently, during the oil and gas crisis beginning in 2014 which saw the price of Brent crude oil plunging over 70% between June 2014 and January 2016, thousands of jobs within the energy sector were lost and investments were slashed across the sector. Nonetheless, enrolments of international schools in Southeast Asia remained stable and still managed to grow by 27% from 2014 to 2017, according to data from ISC research. Their total annual income also increased from USD3.7 billion to USD4.5 billion over the same period, registering a growth of 21%. Similar to the GFC, the mix of students shifted to comprise more local children and children of expatriates from other Southeast Asian countries.

The “Tiger Mom” difference

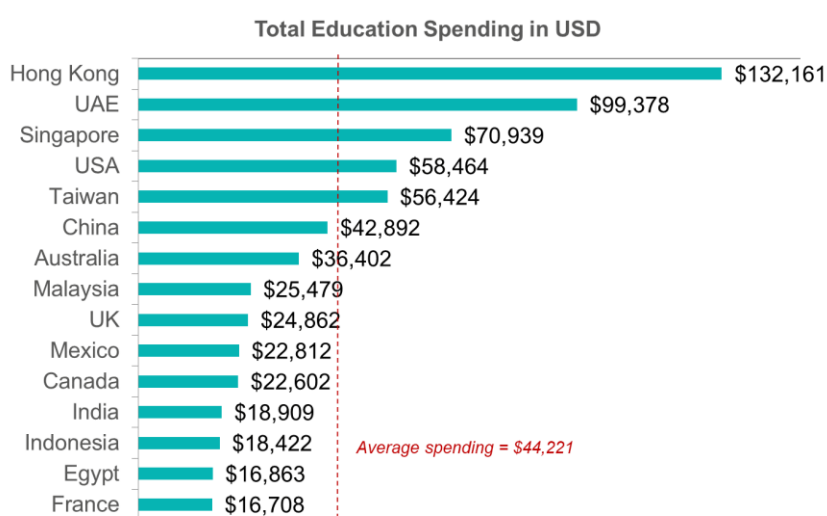
Ideologically, Asian families tend to place strong emphasis on the importance of education and academic achievements. This is especially so in East Asian societies which espouse Confucius beliefs, where education is traditionally deemed essential for character development and that the right values are inculcated for the child to grow up to become a useful member of society.

Besides cultural mores, the modern-day resilient growth of the private K-12 education segment in Asia Pacific is driven by an expanding middle class, urbanisation, rising female labour participation rate and accommodative regulatory policies. Fundamental education is usually deemed non-discretionary spending, especially in Asia where the education system is often characterised by a linear sequence of educational stages. To many, the ideal achievement is to get into a reputed university with the belief that it will lead to greater job prospects. Being educated in an international curriculum like the GCE A-Level or the International Baccalaureate puts the

child in an even better stead to secure entry into more renowned universities and subsequently better and higher paying jobs in the future.

To put the Asian mentality towards education in perspective, HSBC conducted a survey in 2017¹ to find out how much parents contribute in total each year towards each of their child's education, inclusive of tuition fees, educational books, transport and accommodation. The survey showed that parents in Asian economies like Hong Kong, Singapore and Taiwan had above-average spending on their child's education, significantly higher than parents in western economies such as the UK, Canada and France (Figure 2). The survey also revealed that the majority of Asian parents would consider a university education abroad for their child, more so than parents from the western hemisphere.

Figure 2: Asian parents tend to spend more on child's education



Source: HSBC, *The Value of Education* (2017)

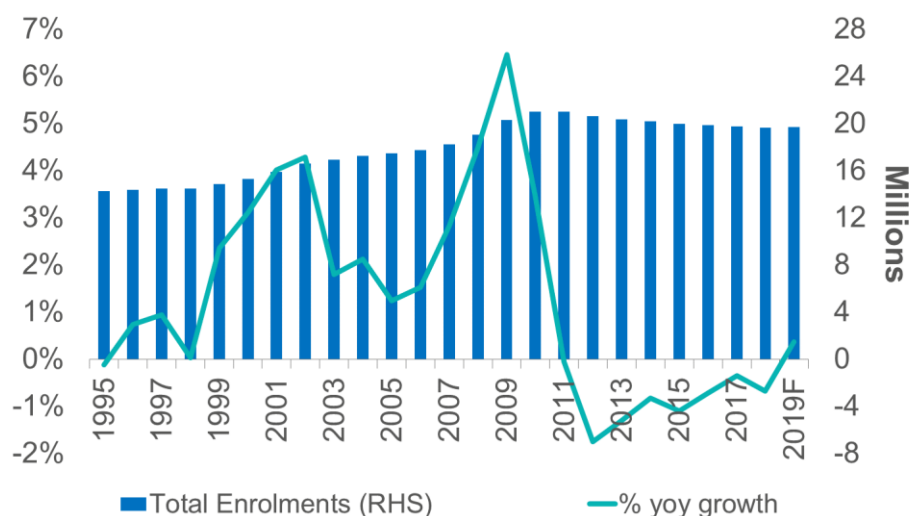
Counter-cyclicality of higher education

Higher education and vocational training tend to be in greater demand during times of economic uncertainty as individuals seek to better prepare themselves for changes in the labour market through re-skilling and up-skilling.

A good example of this was in the US following the GFC in 2008. Enrolment growth in post-secondary institutions picked up in 2008 and peaked in 2009 at the height of the crisis, before tapering off by 2011 as the economy stabilized and growth in non-farm payrolls strengthened (Figure 3). In other words, as the labour market improved, individuals were less compelled to pursue higher education when there were more job opportunities.

¹ "The Value of Education – Higher and higher", HSBC, 2017

Figure 3: Enrolments in US post-secondary institutions



Source: US Department of Education, National Centre for Education Statistics

Governments often encourage individuals to further their education during downturns either by way of policies or subsidies. For example, in China where university enrolments are dictated by quotas, the Ministry of Education expanded postgraduate enrolments following the onset of the GFC. As a result, postgraduate enrolments jumped by 14.5% yoy in 2009, compared with a 6.6% yoy rise the year before².

Is COVID-19 a game-changer?

While it may still be too early to quantify, the economic impact of COVID-19 on most economies is likely to be more severe than even the GFC. In addition, COVID-19 is more importantly a global health crisis which necessitated school closures when cities went into lockdown. Schools in key Asia Pacific cities have progressively reopened while adhering to strict social distancing and safety measures. Due to continued travel restrictions, local demand for school spaces has increased compared to foreign demand.

K-12 amid COVID-19

Due to the pandemic, many K-12 operators in Asia have frozen fee hikes for the academic year 2020 and some have offered needs-based assistance such as bursaries. Expatriate parents may be vulnerable to job losses if the economic downturn worsens but completely withdrawing their children from school is likely to be the last resort.

The majority of parents are unlikely to remove their children from their current schools due to the steep adjustments the students have to make in a new environment which could impact their results and well-being. Nonetheless, some parents could switch their children to more mid-priced schools for better affordability provided that the courses their children are taking are available as the mid-priced schools tend to offer fewer subject choices. On the other hand, the pandemic may cause some local families

² National Bureau of Statistics of China

to be more cautious about sending their children to overseas boarding schools, preferring to keep them at home and sending them to local international or private bilingual schools instead. For example, as far as we are aware, the number of students applying to study at South Korea's Global Education City in Jeju increased by 40% between February and July 2020, backed by local demand.

This crisis has prompted more operators to adopt some technology for online learning. The post-COVID environment is likely to see a blend of offline and online learning, where the digital platforms supplement classroom learning rather than replacing it. The classroom setting remains essential for nurturing soft skills such as face-to-face communication, building friendships, teamwork, leadership and other social skills. In addition, many are conscious about the detrimental health effects of online learning associated with too much on-screen time. In addition, for the younger cohorts who tend to have shorter attention spans, the classroom setting better facilitates adult supervision and allows the children to learn through play.

Over the medium to long-term, demand for K-12 education remains robust. With a growing Asian middle-class, wealthier parents are more likely to send their children to international and private schools than public schools, hoping to give their children a good head start via a western-style of learning and be better-positioned for the global "rat race" when they grow up. In markets where expatriate enrolment may be impacted by the crisis, strong local demand may fill the gap, as was the case in China and UAE during the GFC in 2008.

Case Study 1: Malvern College in Asia

Malvern College currently operates in three locations in Asia, comprising an international middle school in Qingdao, a K-12 bilingual international school in Chengdu and a pre-school and a K-12 international school in Hong Kong.

The operator noted that in Hong Kong, expatriate families had been contemplating moving away since 2019 when the social unrest began. Even though some did so, they continued to pay fees to keep their places in school. With the outbreak of COVID-19, Malvern College Hong Kong started to adopt online learning since March 2020, but this proved inconvenient for students who have not returned from Europe because of the time difference.

Nonetheless, demand for a place in Malvern College Hong Kong remains strong. There is a waiting list of prospective students and the school currently already operates at around 80% utilisation. The pre-school situation was more challenging during the school closures due to COVID-19. Malvern took in some students from other pre-schools which had ceased operations and maintained excellent fee collection by the time the school reopened in August. For the main K-12 international school, the operator observed growing interest from locals, including existing students from prestigious local schools and also an improvement in expatriate interest for the upcoming 2021/22 academic year.

In China, fee collection has not been an issue as fees are collected upfront for the whole year. The operator noted that since reopening in end-April, the school in Chengdu received more applications from students returning from the UK, where the pandemic situation remains more acute. There

were also students returning from the US following the rise in US-China trade tensions. In addition, the prestigious school appeals to well-off parents in Chengdu and other parts of central China who wish to provide their children with a bilingual or international curriculum. With the COVID-19 situation very much under control in China, the operator thinks that the Chengdu school's enrolment can pick up in 2021.

Higher education prepares for post-pandemic economy

As mentioned above, post-secondary education has shown to be counter-cyclical to the health of the economy. When labour market conditions are weak, the opportunity cost associated with higher education is lower. In addition, there will be higher propensity to upgrade or acquire new skills to be more relevant to hiring employers when labour conditions pick up again.

These considerations may be even more pertinent now as individuals prepare for a heavily disrupted post-pandemic world. What will the world be when COVID-19 eventually passes? Will the acceleration of tech adoption push many existing jobs into redundancy? What then are the skills and qualifications required to succeed in the post-pandemic economy? What is clear is that individuals cannot let their skills stagnate and must recognize that lifelong learning is an integral aspect of maintaining employability in the new normal.

Operationally, private colleges and universities which originally had higher proportion of international students may be impacted by COVID-19 related travel restrictions. While this is mostly expected to be temporary and universities are bridging the gap with online learning, there is a risk that some foreign enrolments may be deferred or even lost as the students choose to remain in their native countries or opt for another location closer to home.

To make up for the potential enrolment shortfall, universities can look inward to increase local enrolments by introducing more continual education for working professionals and offering more post-graduate courses for locals. For example, the Singapore government introduced the SGUnited Skills programme in May 2020, which will provide full-time training to about 30,000 job seekers. The courses last between six and twelve months and are delivered by Continuing Education Training Centres, including universities. Trainees receive SGD1,200 per month throughout the course duration and course fees are highly subsidised. Similarly, the Australian government announced in July 2020 an AUD1.0 billion JobTrainer programme which provides an additional 340,700 training places to help school leavers and job seekers access short and long courses to develop new skills and create a pathway to more qualifications.

In China, the Ministry of Education announced in February 2020 that in order to ease the job market pressure and encourage students to seek higher education, the enrolment of master's degree students will increase by 189,000 in 2020, or a 23% yoy increase. Premier Li Keqiang later announced in May 2020 that the government will devote tens of billions of yuan in 2020 and 2021 to provide vocational skills training for 35 million people and increase enrolment in vocational colleges by two million students.

Like the K-12 segment, online learning is expected to complement the classroom setting in universities, not replace them. In fact, universities have introduced e-learning since the early 2000's with the proliferation of the internet. There will also be a trend of increasing enrolments into STEM (Science, Technology, Engineering and Mathematics) courses as most economies prepare for a digital-ready workforce. Since these courses have higher lab-based content for experiments, there will still be a need to maintain brick-and-mortar campuses. Especially for universities, the quality of the physical campus and its facilities could make a difference in their ability to attract top students and faculty, as well as to charge premium fees.

Case Study 2: Kaplan Singapore

Kaplan Singapore offers a variety of undergraduate and postgraduate courses conferred by established partner universities such as Monash University, RMIT University and Royal Holloway, University of London, amongst others. In addition, Kaplan Singapore also offers courses for professional qualifications such as ACCA and CFA, as well as training programmes for lifelong learning, on topics such as cybersecurity and digital science.

The operator noted that despite the pandemic, there have been no problems with cash collection. This is because the undergraduate students mostly come from well-to-do families and Asian families typically place a high premium on education. While it is difficult to predict the duration of the pandemic, drivers such as the continued growth of the Asian middle-class will underpin demand for high-quality education for years to come. The operator is also optimistic about the prospects for professional training and continual education as the economy slows down amid the pandemic.

With geopolitical tensions and travel restrictions causing some mainland Chinese students to rethink about enrolling into colleges in the US or UK, Kaplan has noted an increase in inquiries from mainland Chinese students. Singapore benefits from being in the same time zone as China and while the additional increase in Chinese students will ultimately also depend on the Singapore government's visa approvals, the operator expects Kaplan Singapore's current enrolment of 15,000 students to enjoy mid-teens growth annually.

The operator reckons that edtech for online course delivery is here to stay but physical space remains necessary in education, especially for activities such as lab work. In addition, the increased adoption of edtech during the pandemic is not expected to impact course fees. Nonetheless, there may be new ways for schools to utilise real estate. For example, there may be a case for more vertical school campuses where various schools can be co-located, such as K-12 alongside a university.

Opportunities could arise

Despite the healthy long-term demand drivers, the weaker operators may inevitably still run into problems the longer the pandemic ensues while the more established operators will emerge stronger.. Schools (either K-12 or universities) with sizeable foreign student cohorts may struggle to completely substitute them with domestic students in the short-term, especially if cross-border movements remain restricted. However, the more established ones will attract wider local demand from students who are now unable to travel overseas to study.

COVID-19 may result in merger and acquisition (M&A) opportunities for the operators with solid balance sheets and strong operating track records. Other schools may consider going more asset-light to focus on their core education business and build up financial buffers, presenting real estate investors with opportunities to structure sale-and-leaseback agreements with them. For example, a UBS analysis estimated that Australia's top ten institutions could monetise AUD25 billion worth of real estate held on their balance sheets to meet revenue shortfalls, paving the way for property players to have a foothold in the education sector³.

Conclusion

The education segment has withstood past economic crises, often emerging even stronger. COVID-19 may spark some changes in the way schools operate but the physical campus remains necessary for students to build social and engagement skills, exchange ideas and conduct lab experiments. If the pandemic becomes protracted, we can expect more M&A and sale-and-leaseback opportunities.

The desire of Asian parents to provide the best education pathways for their children will only grow. Underpinned by strong long-term demand drivers especially in Asia, education real estate is expected to remain a resilient asset class in the post-COVID world.

"We can't stop learning if we want to succeed in life" (君子曰：学不可以已。青，取之于蓝，而青于蓝；冰，水为之，而寒于水)

- Xun Zi (荀子), Chinese Confucian philosopher in the 3rd century BC

Credits: Special thanks to Malvern College (Asia) and Kaplan Singapore for providing the feedback used in the case studies

³ <https://www.afr.com/property/commercial/ivory-tower-opportunity-beckons-amid-fee-squeeze-20200925-p55zcg>

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