

SPECIAL REPORT

# STUDENT HOUSING

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## STUDENT HOUSING – A SMART INVESTMENT

Healthy demand and numerous shifts in student housing trends have transformed the property sector. Once often overlooked by investors for fear of poorly maintained properties and high turnover, this asset class has become resilient, boasting handsome returns. In recent years, the sector has outperformed traditional multifamily apartments with stable rent growth and absorption rates.

### TYPES OF STUDENT HOUSING<sup>1</sup>

**University Student Housing:** Traditionally located on campus, these are dorms or residence halls. Typically owned and/or developed by the college or university, they usually are preferred by students. Lately, public/private partnerships (known as PS3s) are becoming popular. Private companies partner with universities to develop and manage on-campus housing options, allowing the university to use funds and resources for other needs.

“The College of Charleston worked a public/private partnership to redevelop a prime location on its historic downtown campus with a private developer to complete the Sterling Campus Center.”

JOHN TRUE, STUDENT HOUSING SPECIALIST  
COLDWELL BANKER COMMERCIAL ATLANTIC, CHARLESTON, SC

**Privately Owned Housing:** These properties are in off-campus locations, typically within three or four miles of the campus, and developed and managed by private companies offering competitive rental rates. Some of these assets are built specifically with student residents in mind and provide various student-friendly amenities. Since these assets are privately owned, they can be offered to both students and non-students.

“There are multiple developments by private users on the Purdue campus. Between 3,000-3500 units are under construction with five multistory buildings underway.”

STEVE SHOOK  
COLDWELL BANKER COMMERCIAL SHOOK, LAFAYETTE, IN

“Most universities prefer and encourage new housing to be developed by the private sector to concentrate investment in their core missions.”

TIM HARRINGTON  
COLDWELL BANKER COMMERCIAL DEVONSHIRE REALTY, CHAMPAIGN-URBANA AND CENTRAL, IL

“At The University of Tennessee, the campus offers a “dry” and a “smoke free” campus. At off-campus housing, alcohol is allowed as well as smoking (outside the residence). I think this is important to many students, especially the alcohol consumption part. This is a point that students consider when choosing where they want to live. They are freer to live as adults live.”

JIM SIMPSON  
COLDWELL BANKER COMMERCIAL WALLACE & WALLACE, REALTORS, KNOXVILLE, TN

“NE Florida, University of North Florida (UNF), and Jacksonville University (JU) need new housing development to support their growth. JU assigned a private development as one of its freshman dorms, but it stayed as a private ownership, recently sold to WP Carey. UNF will support a new private housing development, but has no interest in a PS3 type development. They may provide a shuttle service to campus if developed.”

GLENN PALMER, EXECUTIVE VICE PRESIDENT  
COLDWELL BANKER COMMERCIAL BENCHMARK, JACKSONVILLE, FL

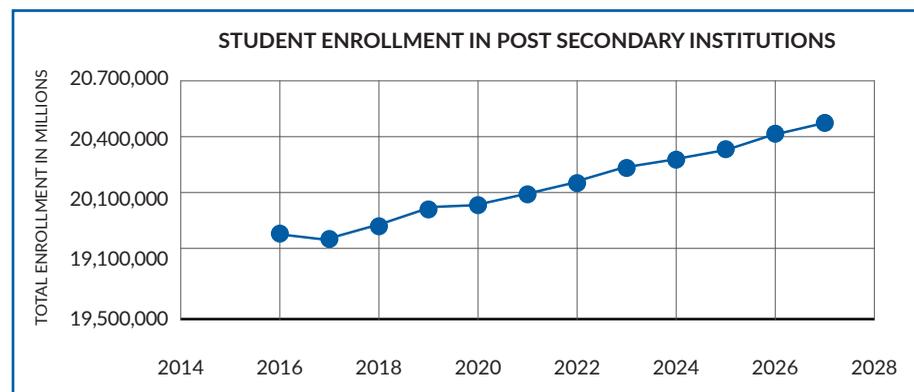
## RISING ENROLLMENT: A MAJOR GROWTH DRIVER

Despite steep increases in tuition rates over the past few decades<sup>1</sup>, college enrollment has increased 30 percent since 2000, or by 19.9 million students according to estimates from the National Center for Education Statistics (NCES)<sup>2</sup>. The largest jump in college enrollment during the past 18 years occurred during the Great Recession, when many young adults chose to pursue a college education as they were laid off or unable to find stable employment. Over the next several decades, the population of individuals between 18 and 24, the prime age for attending college, is expected to remain steady at more than 30 million people each year. Nearly 70 percent of these individuals are estimated to attend college each year, providing a steady demand base for college enrollment and student housing properties.<sup>3</sup>

While demand for housing on and around campuses is rising, colleges and universities are facing funding challenges. This is opening the door for investors and developers to provide an alternative housing option to university-owned dormitories. Growing enrollment data supports their efforts, and student housing landlords can expect a stable supply of occupants for several years.

“As is typical of flagship universities, enrollment growth without the addition of new campus beds has allowed the market to absorb new supply. There is significant new supply in the pipeline. Changes in zoning ordinances related to height, density, and parking have made several high-rise projects near campus possible.”

TIM HARRINGTON  
COLDWELL BANKER COMMERCIAL DEVONSHIRE REALTY, CHAMPAIGN-URBANA AND CENTRAL, IL



SOURCE: CBC RESEARCH, NCES

## DEVELOPMENT TRENDS

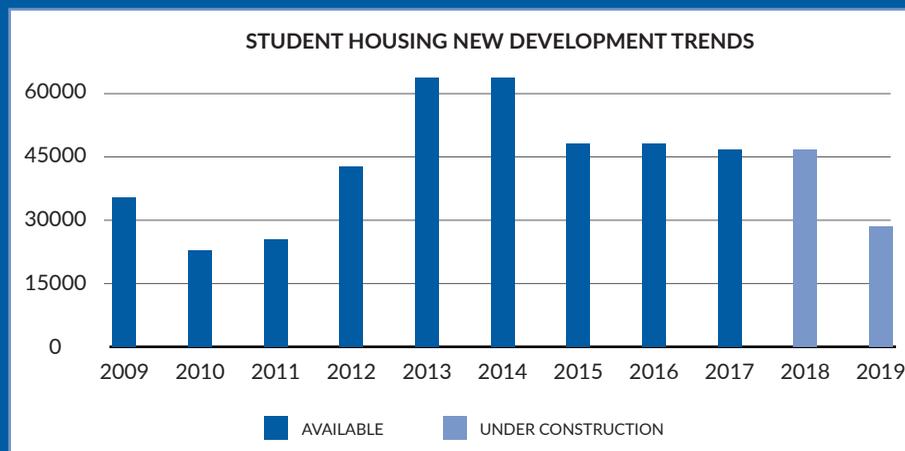
Lavish amenities are being used to attract students to new, luxury student housing developments. Large pools, weekend parties complete with DJs, free food, and drinks, as well as fancy clubhouses offering game rooms, gyms, and business centers are just some of the amenities developers and operators are using to attract students to properties.

U.S. student housing development peaked during 2013 and 2014, with more than 60,000 units added each year. Though completions have fallen since, more than 45,000 student apartments are slated for completion during 2018, on par with deliveries from 2015 to 2017 and well above stock addition prior to 2012.<sup>4</sup>

“More competition has led to a tighter market for buyers of student housing. This has resulted in major improvements to existing product. When the new owners take over, they realize they must upgrade to compete for higher rents.”

ERIC SACKLER  
COLDWELL BANKER COMMERCIAL NRT, LOS ANGELES, CA

Generation Z is now entering college and forging new trends in student housing development. While a location near campus is still on the top of developers lists, fewer available sites for large projects are forcing more construction of micro-units, averaging less than 500 square feet, in markets with a supply crunch. This new generation is environmentally and fitness conscious, and developers are adding group and private study areas as well as fitness centers to accommodate.<sup>5</sup> The rise in popularity of ride sharing has also encouraged some developers to petition for reduced parking spaces at properties in order to focus on outdoor community spaces, like pools and fire pits.

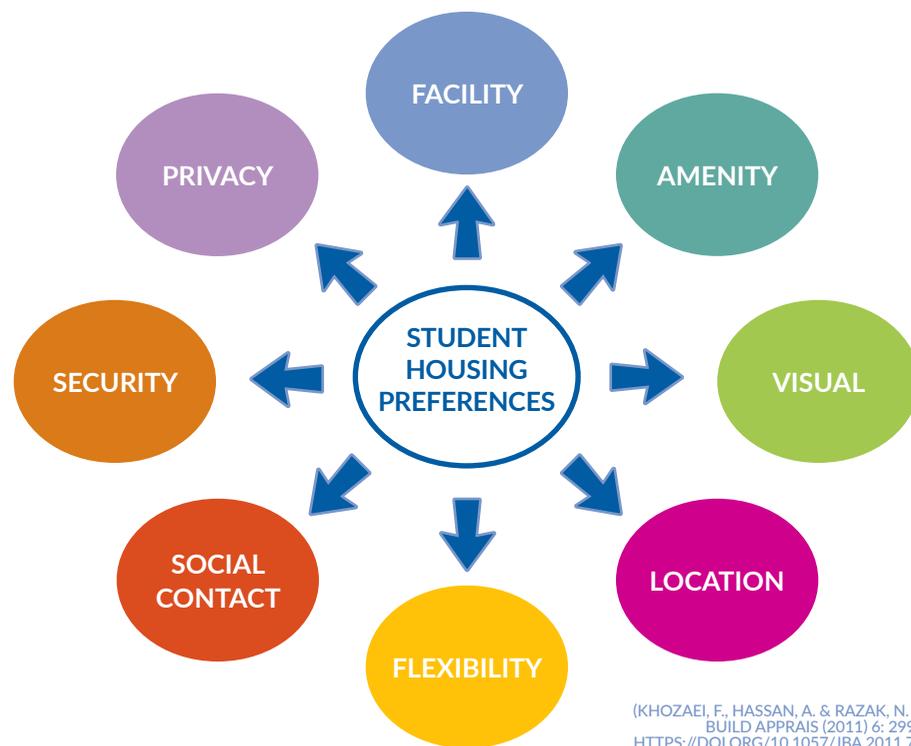


SOURCE: CBC RESEARCH, NREI, AXIOMETRICS

## AMENITIES

“Many of the newer properties in the Texas Tech University market are closer to campus but don’t perform well. However, one of the properties called the Park East Student Living (formerly 18Nineteen Apartments) is very popular among students even though it is almost a mile from campus. I believe it is because of the resort-style pool, courtyard golf putting course, state-of-the-art business center, etc. that the property offers to its residents.”

CHASE TUCKER, MULTIFAMILY / STUDENT HOUSING SPECIALIST  
COLDWELL BANKER COMMERCIAL CAPITAL ADVISORS, LUBBOCK, TX



NREI reported that amenities and their impact on student housing rents vary from market to market. At some universities, students are ready to pay higher rental rates because the amenities are a great value for their money. In other markets where students may be more price conscious, extra money for luxury spas and gyms just isn’t something students are willing to pay.<sup>6</sup>

“Like all other consumers, students look for the best product at the lowest price. To get feet through the door and sell students on signing leases at high market rents, owners are constantly having to offer the latest trends in amenities – whether it be dog runs, bicycle rooms/repair services, storage, gyms/yoga studios, Wi-Fi, package centers . . . a buzz is created for properties with the most modern and in-demand amenities.”

ERIC SACKLER  
COLDWELL BANKER COMMERCIAL NRT, LOS ANGELES, CA

“Traditionally students lived in individually owned houses in and around campus if they did not live in school owned dorms. There has been an uptick in developer-built student housing facilities, especially in and around Charleston Peninsula. New developments around the three main schools in the area are very high-end and have a variety of amenities for the students. Both students and parents enjoy cleanliness, amenity packages and security and are willing to pay for it.”

JOHN TRUE  
COLDWELL BANKER COMMERCIAL ATLANTIC, NORTH CHARLESTON, SC

“We are seeing new student housing developments close to campus and also some 3-4 miles away. Two of the developments are in a strong retail area at the edge of UTK and offer street level retail and apartments above with onsite parking garages.”

JIM SIMPSON  
COLDWELL BANKER COMMERCIAL WALLACE & WALLACE, REALTORS, KNOXVILLE, TN

## RENTAL RATES

Healthy demand is encouraging rental rate growth, and in a recent NREI report<sup>7</sup> the majority of student housing properties were on track to be fully-occupied by the start of the school year. In a survey by RealPage, Inc. that analyzed rental rate trends for around 120 universities, it was found that 63 percent are achieving rental growth above the national average, and nearly 30 percent of these properties are realizing advances of four percent or more.<sup>8</sup> The closer a property's location to campus, the more stable the rent growth.

“Occupancy rates seem to be high given captive markets. Rents in this segment are also increasing and high-end amenities are order winners. When you put four students, each with an ‘apartment within an apartment’, in each unit, own bathroom, etc. and are charging \$900 to \$1,300 for each student per month, the rents are quite impressive.”

PETER A. FRANDANO  
COLDWELL BANKER COMMERCIAL MECA, CHARLOTTE, NC

“Rental rates for communities not too close to campus are a bit less expensive but some offer more or larger amenities such as more outdoor areas and larger pools and fitness centers. At the University of Tennessee-Knoxville, housing ranges from \$737 per month to \$1,231 per month (2017). Properties located within a half-mile away from the Knoxville campus were 77.2 percent leased in May. The properties located between a half mile and a mile from campus are leasing more slowly, with those more than a mile away from campus saw the pre-leasing rate drop further.”

JIM SIMPSON  
COLDWELL BANKER COMMERCIAL WALLACE & WALLACE, REALTORS, KNOXVILLE, TN

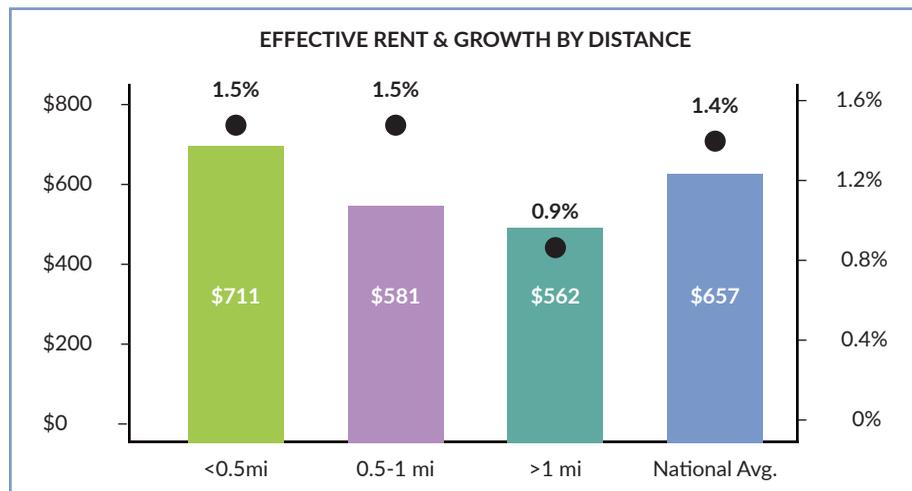
### TOP UNIVERSITIES FOR RENT GROWTH

UNIVERSITY	EFFECTIVE RENT	RENT GROWTH	JUNE 2018 PRELEASE	CHANGE (YOY)
AUBURN UNIVERSITY	\$612	8.0%	98.4%	2.5%
BOWLING GREEN STATE UNIVERSITY	\$392	7.9%	98.4%	12.5%
UNIVERSITY OF NORTHERN COLORADO	\$585	6.4%	95.4%	5.5%
UNIVERSITY OF NEVADA, RENO	\$647	5.8%	89.1%	3.4%
VIRGINIA TECH	\$636	5.5%	96.3%	-3.3%
UNIVERSITY OF CENTRAL FLORIDA	\$728	5.3%	96.3%	1.6%
SAN DIEGO STATE UNIVERSITY	\$842	5.0%	87.6%	2.7%
UNIVERSITY OF NEBRASKA, LINCOLN	\$615	4.9%	84.7%	-9.1%
NORTH CAROLINA STATE UNIVERSITY	\$680	4.8%	89.2%	0.6%
BRIGHAM YOUNG UNIVERSITY	\$367	4.6%	100%	4.4%

SOURCE: AXIOMETRICS, A REALPAGE COMPANY

“Five miles seems to be the outer limit for most campus housing in Los Angeles and the buildings that are within walking distance command the highest premiums.”

ERIC SACKLER  
COLDWELL BANKER COMMERCIAL NRT, LOS ANGELES, CA



SOURCE: AXIOMETRICS, A REALPAGE COMPANY

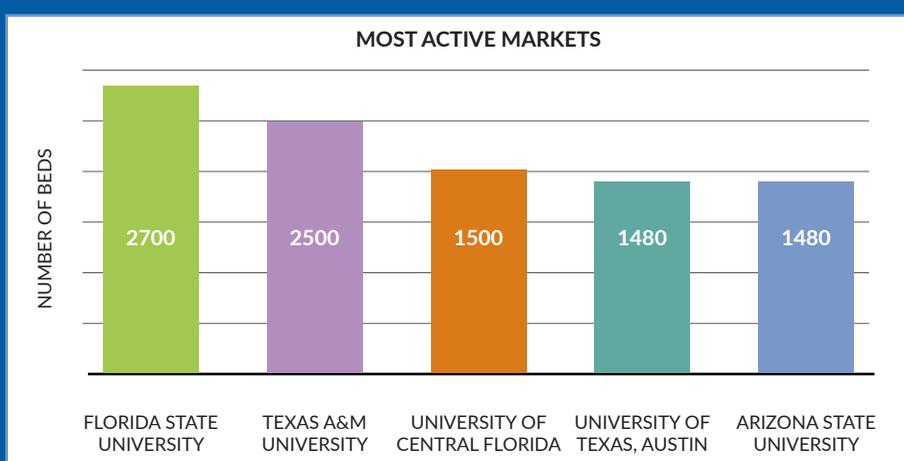
“Based on discussions with developers, one mile is the standard they use for most campus sites. The closer the better with walkable sites being ideal. Not only does distance impact rates, it can also impact occupancy if there is a lot of competition.”

GLENN PALMER  
EXECUTIVE VICE PRESIDENT, CBC BENCHMARK, JACKSONVILLE, FL

## MOST ACTIVE MARKETS FOR DEVELOPMENT

Student housing developers are considering a number of factors when seeking markets for growth. Tier one schools are attracting the most development and capital from institutional grade investors. Enrollment growth and the state's economic situation both play a strong role. While tier two and tier three universities also attract some attention, it is not yet occurring at the same level.<sup>9</sup>

The market-wide average student housing occupancy is sitting at 83% right now.<sup>7</sup> Per NREI, these five universities will open the most new beds in the fall of 2018.<sup>9</sup>



SOURCE: CBC RESEARCH, NREI

“The Texas Tech student housing market is overbuilt right now. . .The market rents and occupancy was steadily increasing, even as new construction entered the market, however, in 2017 about 3500+ beds came online at one time, which has drastically affected the student housing market.”

CHASE TUCKER

COLDWELL BANKER COMMERCIAL CAPITAL ADVISORS, LUBBOCK, TX

“At University of Tennessee-Knoxville, there is adequate student housing. The demand for on campus student housing has remained unchanged for decades according to Assistant Vice Chancellor for Student Life and Frank Cuevas, Executive Director of University Housing. Since 2014, UTK has opened four new residence halls with two more expected to open in 2019. New halls are smaller than the old ones they have replaced or will replace so the number of available units are about the same.”

JIM SIMPSON

COLDWELL BANKER COMMERCIAL WALLACE & Wallace, Realtors, Knoxville, TN

“Developers and investors are moving quickly as they see shortages will increase demand and competition. It will be interesting to see how this supply is absorbed. Depending on the location, properties will do well. However, remote properties will be affected.”

STEVE SHOOK

COLDWELL BANKER COMMERCIAL SHOOK, LAFAYETTE, IN

## FOREIGN INVESTMENT

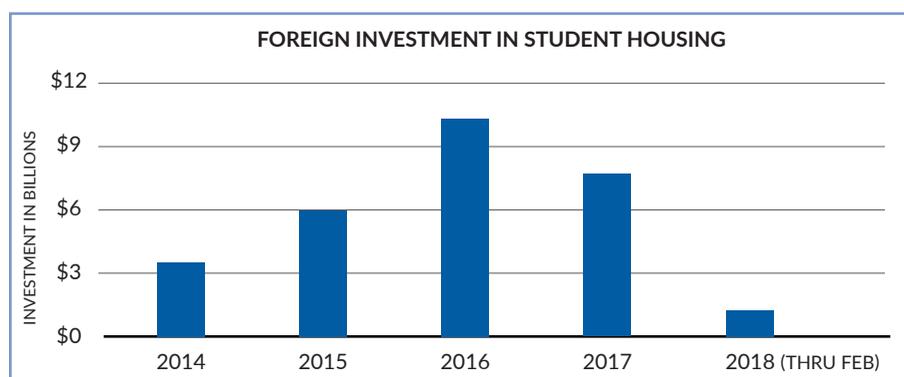
The health and growth potential of the U.S. student housing market has attracted a heightened level of foreign interest over the past few years. Foreign investment groups and joint ventures have placed billions of dollars into the property sector.

Earlier this year, a joint venture between the Canada Pension Plan Investment Board, Singapore sovereign-wealth fund GIC, and Chicago-based student housing owner Scion Group acquired a portfolio of 22 student housing properties for \$1 billion. Since 2016, the venture has invested more than \$4 billion in student housing assets, purchasing a total of 46,555 beds in 52 university markets. Another group, Mapletree Investments Pte which is owned by Singapore state investor Temasek Holdings, invested \$197.5 million in an 850-bed student housing high-rise in Philadelphia earlier this year.

Institutional investors and large private groups from countries like China, Russia, the Netherlands, and Middle East are looking to diversify their holdings. Student housing offers attractive returns, and the estimated population of college-aged individuals and college enrollment trends provides a steady stream of future demand. International investors are seeking properties located near tier one state schools with strong STEM programs and popular sports teams.<sup>10</sup>

“We are seeing selective offshore investment. It is too early to predict the cap rates but I expect that investors will get healthy returns.”

STEVE SHOOK  
COLDWELL BANKER COMMERCIAL SHOOK, LAFAYETTE, IN



SOURCE: CBC RESEARCH, WALL STREET JOURNAL

## OUTLOOK

The forecast for 2019 and beyond looks strong, but investors will need to navigate economic policy changes and market dynamics that will impact their portfolios and acquisitions. Through mid-2018, real estate fund managers have raised \$1.9 billion for student housing projects globally.<sup>11</sup> Furthermore, it's estimated that 47,000 new beds will be offered at off-campus student housing projects for the fall of 2018, with construction starting on 30,900 beds for the fall of 2019.<sup>12</sup>

Analysts are upbeat about the healthy economy and future demographic trends that will create steady demand for this property sector, and many believe that the student housing

market has been fully tapped, therefore leaving a number of opportunities for investors who understand the nuances of the sector. Student housing properties will remain a favorable investment option, with cap rates on par to conventional multifamily assets in the same markets. Increased interest rates over the past few months, however, have investors seeking alternative or creative financing opportunities in order to meet investment objectives.

The Coldwell Banker Commercial Capital Advisors team in Texas supports many student housing developers with site selection across the country. Their biggest challenge is finding land suitable for student housing developments, as developers are looking for a very specific use when digging through the land ownership within each market. It is a very competitive market, so if there is an available site in a good location, good size, and price - it will go very quickly.

His team is working on the possible sale of a private student housing property and has been in discussions for more than two years as the owner upgrades the property. They also have a premier development site for a private student housing project, but have had challenges overcoming the price expectations between buyer and seller.

Eric Sackler, Coldwell Banker Commercial NRT has been involved with transactions for UCLA and Santa Monica City College and agrees that the considerations for the purchase are very different from a typical investor in that they are more concerned about safety and access to public transportation, more sensitive to possible maintenance issues and are very strategic with regards to unit layout and consideration for roommate situations.

“In my opinion, there is not enough housing at most universities, which is why we are seeing the explosion in the student housing market as a whole. Right now, there is an oversupply of beds for TTU, but it is not to be compared similarly to the rest of the student housing industry. With the lower occupancy, rents are slowly decreasing. However, we feel like the student housing market is at an all-time low and there is only room for growth. With Texas Tech’s new enrollment goal of 44,500 students by 2025 - the student housing market will only continue to perform better year over year.”

CHASE TUCKER

COLDWELL BANKER COMMERCIAL CAPITAL ADVISORS, LUBBOCK, TX

“Investor interest is high and has been high, but interest is also tied to the quality and size of the university. We have seen an interest in tier two and three university markets as many of these universities are underserved by new housing and developers can buy less expensive land, creating a higher return investment.”

GLENN PALMER

COLDWELL BANKER COMMERCIAL BENCHMARK, JACKSONVILLE, FL

“The future of student housing is very bright with growth in YOY rent rates. There is a need for smaller and remote communities in many markets. Also, there is a rise in multifamily development that provides variety and different options to students.”

STEVE SHOOK

COLDWELL BANKER COMMERCIAL SHOOK, LAFAYETTE, IN

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