

Student Housing: A Sector in High Demand

Overview

For college students, finding student housing has become as much a part of the college experience as cramming for exams and pulling an all-nighter to finish a paper. However, the days of a half dozen students sharing a slightly run-down old house may be numbered. Demand for updated student housing is strong, and real estate developers are trying to meet that need by constructing new, often innovative housing alternatives. Investors should therefore take note of this emerging sector of real estate investing.

Indeed, student housing as a sector is relatively new when compared with other property types. It was traditionally viewed under the broad umbrella of “multifamily real estate,” but now it is seen as a stand-alone sector of rental real estate, one with its own unique challenges and opportunities. With that in mind, below we outline three components of the student housing market that suggest the sector has a runway for strong long-term growth.

Demand Is Strong and Growing in the Sector

The student housing sector’s growth has been largely fueled by pent-up demand—including the need for alternatives to older, poorly maintained off-campus homes and the aging stock of college dormitories. Although total college enrollment peaked in 2010 and then began to decline, since 2019 it has begun to rebound and was up 2% from 2022 to 2023 at top universities.¹

While some schools are facing declining enrollment—even closure—others are continuing to grow. Enrollment is expanding at schools in high demand, such as those with Division I athletics and well-regarded research programs, while smaller, lesser-known institutions are suffering from weaker enrollment.² As a result, there tend to be disparities in student housing demand based on location and demographics. In addition, enrollment is growing on a global scale, with many top international schools looking to build additional housing to meet higher demand. Indeed, according to data compiled by Bonard, enrollment grew 6.4% in 2023 globally.

Student Housing Is Experiencing a Shortage

As college students know all too well, the supply of student housing is incredibly tight. The demand for student housing beds has exceeded enrollment growth for over a decade at large public universities (**Figure 1**).

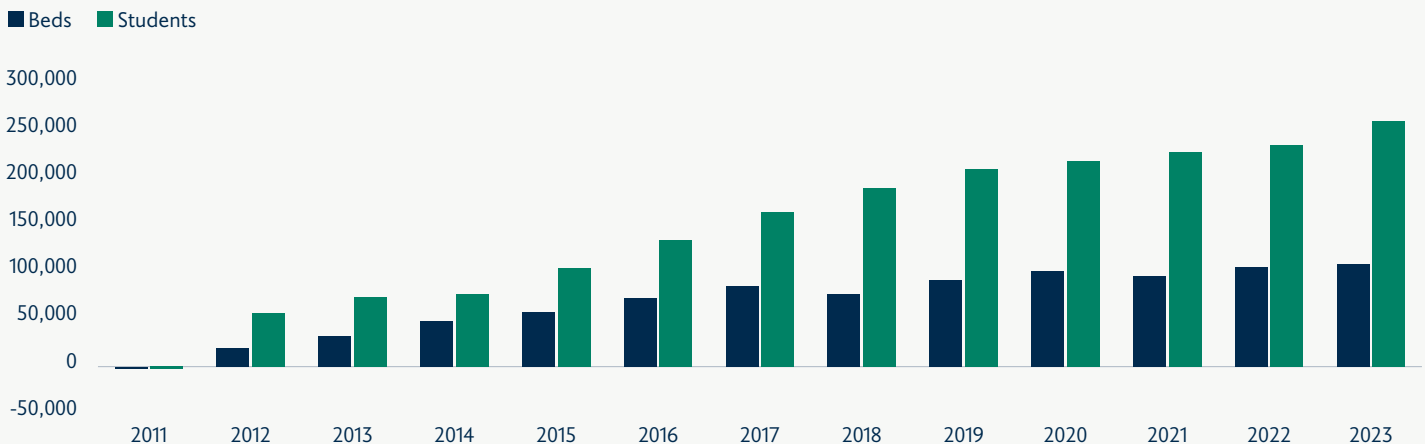
At the same time, projections for new supply are lower than in recent years. New construction of student housing is considerably lower—the annual average number of new beds delivered from 2021-2023 was 33,700, down from an annual average of 56,200 in the preceding seven years.³ The story is the same outside the U.S.—when comparing global total student demand with student accommodation supply, provision rates (total beds vs. total students) have declined 22.5% over the past three years.⁴

In our view, there are three main reasons for this shortfall. First, higher interest rates have led to a lack of financing. Second, rising labor and material costs, along with regulatory changes, have also been slowing down new projects. It is important to note, however, that operating fundamentals have helped mitigate the impact of rising construction costs.

Finally, cash-strapped public universities are unable to fund new dormitory development due to state budget cuts. As a result, with state budgets tight and demand for a college education growing, public universities across the country are increasingly turning to the private sector to build and finance new on-campus dormitories. Private colleges and universities may be less attractive for private developers because they tend to be smaller, with less-extensive housing needs, and they have traditionally financed their student housing with endowments, philanthropy and fees from students.

Real estate developers and investors have been looking at different ways to create mixed-use housing projects that combine living and learning near campus with plenty of amenities. Technology, a more hospitality-centric approach, and sustainability have also become important aspects in the sector to optimize the student learning experience. There are increased efforts to address the shortfall in exciting, innovative ways, which is good news for investors.

Figure 1: Cumulative Change in Beds and Students at More Than 70 Large Public Universities



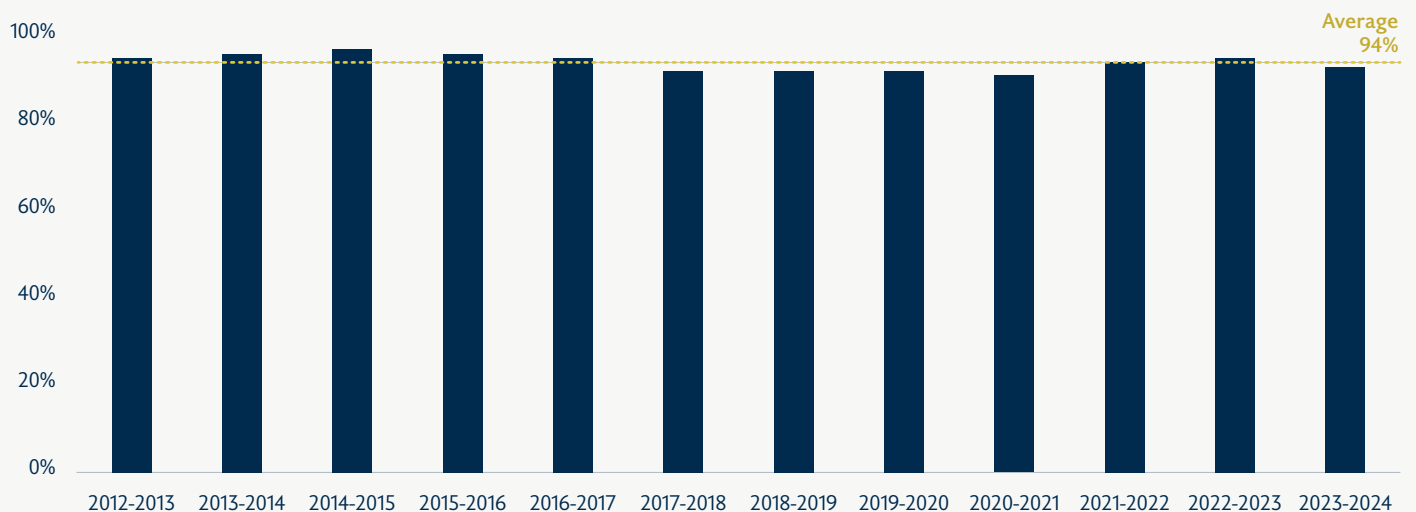
Source: Wall Street Journal analysis of Education Department data, March 2024.

A Confluence of Factors Supports the Sector's Growth and Attractiveness

Against that backdrop of growing demand and tight supply, five additional factors should support the long-term growth and attractiveness of the student housing sector for investors.

- 1. Student housing** is relatively resilient to recessions. Slow growth and scarcer job options typically translate into a larger percentage of the college-age population enrolling in both undergraduate and graduate programs. In short, many people go to college in good times, and in bad times even more people tend to enroll. In our view, this cements student housing as an all-weather asset class. In addition, student housing is generally insulated from higher interest rates. If interest rates are elevated, the value of student housing assets should increase due to the prospects for strong rental growth.
- 2. Many millennials**, part of the largest generation group in the U.S., are pursuing or are planning to pursue post-graduate schooling, which extends the demand for student housing beyond the undergraduate years.⁵
- 3. Occupancy rates** are typically high. There were small dips during the pandemic when classes went online, but rates still trend well above 90%, demonstrating how fundamentals support the sector (**Figure 2**).

Figure 2: Student Housing Occupancy by Academic Year



Source: CollegeHouse, as of March 2024.

4. Student housing rents have risen nearly 30% nationwide in the past decade, according to CoStar (**Figure 3**). Rental growth in Tier 1 schools globally was up 9% for the 2022-2023 school year (**Figure 4**).

5. Most student housing buildings are built to last, in order to endure the greater wear and tear and significantly higher tenant turnover that they experience.

Figure 3: National Average Per-Bed Asking Rent in Off-Campus Student Apartments

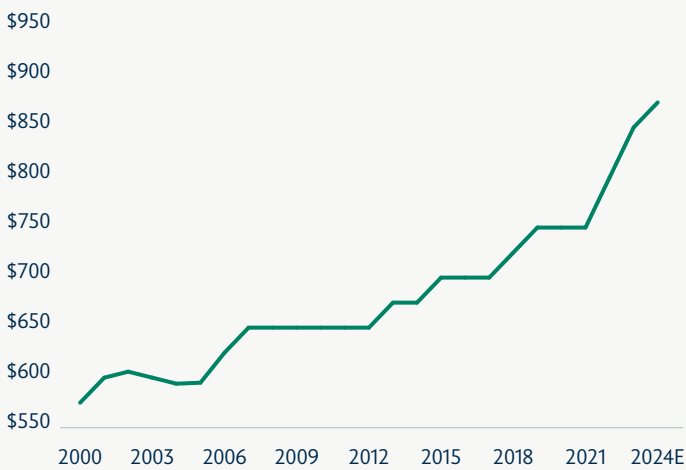
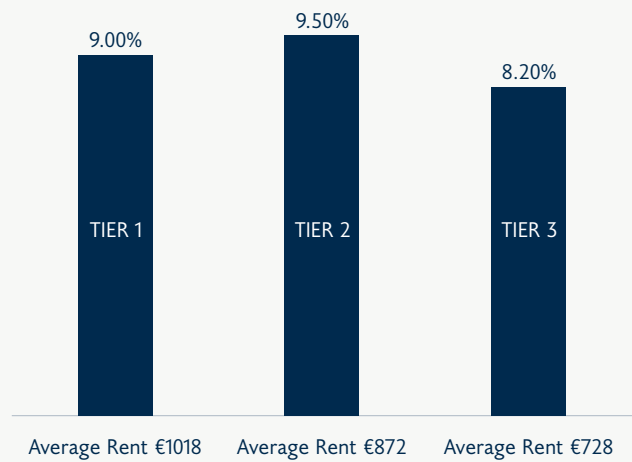


Figure 4: Change in Average Monthly Rent (European Private Student Accommodation Studio) 2023 vs. 2022



Source: (LHS) CoStar, (RHS) Bonard, as of March 2024.

Conclusion

Student housing has a long runway for growth. The market is healthy enough to absorb new beds coming online, with demand fueled by growth in enrollment at top schools. Moreover, it has several attributes that contribute to its appeal. We believe it is resilient to both recession and higher interest rates, and exhibits global growth, not just in the U.S. In short, the trends are strong in the sector, and with limited supply—even with efforts to build new inventory—student housing should remain a sector with potential high growth for the foreseeable future.

ENDNOTES

¹ Source: Axio Metrics, March 2024.

² Source: University Data, March 2024.

³ Source: Wall Street Journal analysis of Education Department data, March 2024.

⁴ Source: Bonard, February 2024.

⁵ Costar, as of March 2024.

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