



**“An education is the investment with  
the greatest returns.”**

— Benjamin Franklin

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## Introduction:

Once viewed simply as a subset of conventional multifamily housing, student housing has taken a giant step towards establishing itself as a mainstream asset class. In this paper, we provide an overview of the US student housing sector and explore the role student housing plays within traditional real estate portfolios.

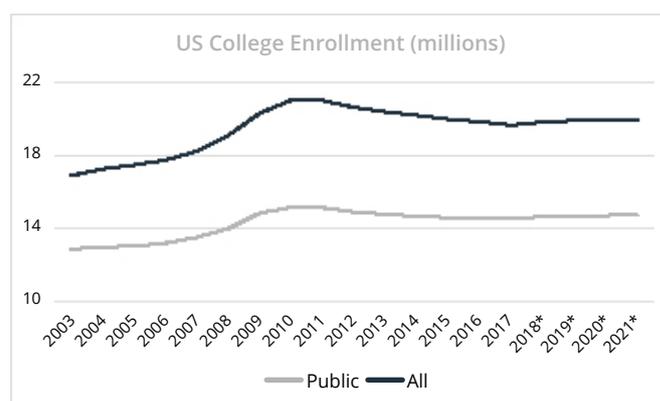
## US Student Housing:

Throughout this article we refer to ‘Student Housing’ which we define as purpose-built multi-family apartment complexes designed and operated specifically to meet the needs of postsecondary student populations. These complexes are usually off-campus, highly amenitized, and leased by the bed with 12-month leasing cycles that align with the academic calendar. These assets typically possess unique operational challenges that distinguish them from conventional multi-family properties.

Several characteristics set student housing apart from traditional multi-family apartments, including; (i) apartment demand influenced more heavily by student populations than external factors, such as economic growth and unemployment; (ii) narrow development windows given the need to deliver product prior to the beginning of the academic school year; (iii) alignment of leasing cycles with academic calendars; (iv) by-the-bed leasing; and (v) a unique competitive set that includes traditional multi-family housing close to campus as well as on-campus housing supply.

Student housing is often compared to senior housing as both sectors are supported by favorable demographic trends, are considered defensive, require operational expertise and have increasingly migrated toward the investment mainstream.

The US higher education sector includes over 4,700 degree<sup>i</sup> granting institutions spanning public universities, private universities, liberal arts colleges, community colleges and for-profit colleges. Indeed, there is a divergence in the financial stability of individual universities and hence the durability of specific markets. At a macro level, the asset class is exposed to favorable long-term demographic and enrolment tailwinds. Demand is underpinned by an increasing reliance on the private sector to provide student housing services as universities focus on funding delivery of core educational services.



\*Projected Source: NCES Digest of Education Statistics 2018

Different sectors have experienced very different enrollment trends over the last decade. For-profit colleges (often offering vocational training) grew rapidly following the recession. Interestingly however, enrollments in these For-profit courses have more than halved between 2012 and 2019<sup>ii</sup>. While not to the same magnitude, the private college market has also consolidated, driven largely by the mergers of some of these private institutions. The more robust public university markets however have grown steadily throughout the last 20 years.

i. Hussar, W.J., and Bailey, T.M. (2016). Projections of Education Statistics to 2024 (NCES 2016-013). U.S. Department of Education, National Center for Education Statistics.

ii. National Centre for Education Statistics 2019.



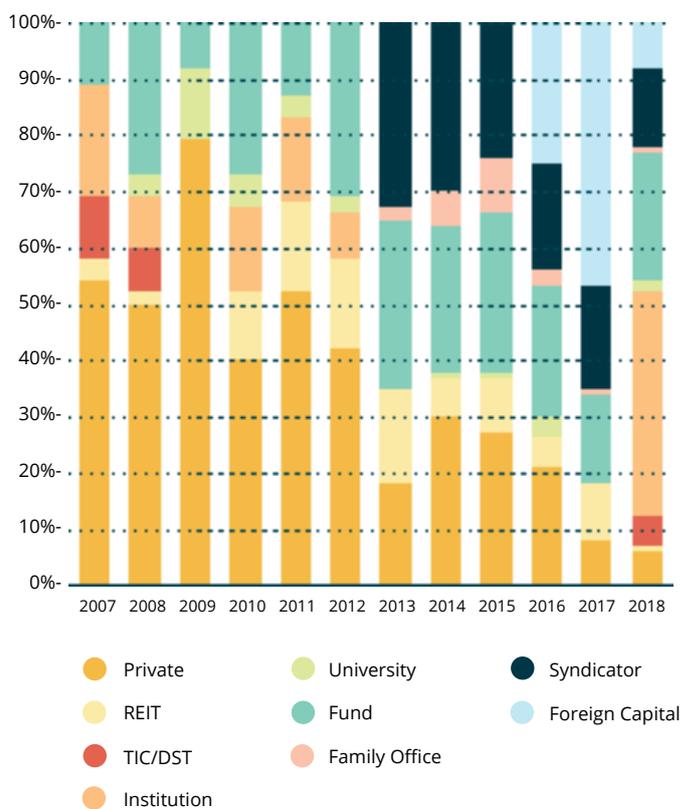
The US is home to one of the largest student populations and has the highest concentration of top 100 ranked global universities of anywhere in the world.<sup>iii</sup> The US Department of Education reports tertiary enrollments are expected to rise to more than 23 million by 2024 – up from 20.5 million in 2016.<sup>iv</sup> With an estimated 2.4 million purpose-built student housing beds for more than 20 million students,<sup>v</sup> the market in aggregate is not only undersupplied but highly fragmented. The top 10 owners hold less than 10% of the off-campus inventory.<sup>vi</sup>

### The role of student housing in portfolios:

**Deep market:** Student housing was once considered a niche sector where its lack of depth and breadth challenged institutional capital allocators. The landscape has changed dramatically over the last decade enhancing the ability to build an institutional diversified student housing portfolio at scale. Recorded market liquidity increased 436% from 2007 and 2016,<sup>vii</sup> over half of the existing stock in major markets is less than 10 years old<sup>viii</sup>, strategies span the risk spectrum from development to core across domestic, international, private, public, oncampus

and off-campus markets. Furthermore, the highly fragmented market provides an ability to rollup assets and originate assets off market.

Historical Buyer Trends.



iii. Washington, DC: U.S. Government Printing Office.

iv. Hussar, W.J., and Bailey, T.M. (2016). Projections of Education Statistics to 2024 (NCES 2016-013). U.S. Department of Education, National Center for Education Statistics.

v. Savills, Spotlight World Student Housing 2016/17.

vi. Saville World Research, World Student Housing 2016-2017 & www.bisnow.com.

vii. Transaction volume per FourPoint Investments' 2016 Student Housing Year-End Report.

viii. Includes private student housing beds delivered between 2008 and 2017 relative to total supply in the top 175 student housing markets tracked by Axiometrics.

**Defensive during economic downturns:** Student housing is a unique asset class given university enrollment typically increases during economic downturns, which provides support for both occupancy and rental rates. Evidence from the recent global financial crisis supports the defensive nature of the asset class. A diversified portfolio of assets is expected to generate strong investor distributions from inception with reduced cyclicity generally leading to better exits.

**Hedge to Inflation:** Real estate is considered by many to be a stable hedge to inflation, student housing is no different. Rent growth in student housing has increased at a rate above the long-term average rate of inflation. In many ways, the annual lease cycle enhances the ability for engaged property management teams to raise rents on a yearly basis. According to Axiometrics, between 2008 and 2016, effective student housing rent rate growth outpaced CPI by 5.2%.<sup>ix</sup>

**Market conventions enhance the sectors resilience:** The value proposition of higher education remains intact. Students with tertiary qualifications are earning more over their careers than those without. According to the Economic Policy Institute, college graduates, on average, earned 56% more than their high-school counterparts in 2015.<sup>x</sup>

## Conclusion:

Real Estate can offer investors a means to enhance risk-adjusted returns via recurring income and capital appreciation, which is particularly appealing against a backdrop of ever lower yields. Student housing's defensive nature and historical yield provides a logical foundation to diversify real estate portfolios and help reduce downside volatility when the next economic downturn occurs. Student housing's increased market depth, a derivative of the sectors migration toward investment mainstream, provides institutional investors the ability to build student housing portfolios at scale. Our experience in the sector has allowed us to not only find stand-alone assets that provide attractive returns but also build diversified portfolios and drive operating performance through our property management and redevelopment capability.

ix. Axiometrics Student Housing Supply and Demand Model (2016); BLS CPI-U.

x. Rugaber, Christopher. "Pay gap between college grads and everyone else at a record." USA Today, January 12, 2017. Accessed November 24, 2019. <http://www.usatoday.com/story/money/2017/01/12/pay-gap-between-college-grads-and-everyone-else-record/96493348/>.



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