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THE MILLENNIAL STUDENT HOUSING SECTOR

By Steve Bergsman, Sponsored by SIOR Foundation

There are more than 100 colleges and universities in the Boston metro including major research institutions, liberal arts, and art and technical schools. The student population has now climbed to over 200,000 and since they all don't live at home (many are foreign students) they all have to live somewhere.

The problem in the Boston region is there isn't a lot of available land for new student housing, and space that does become available is often coveted by other types of real estate developers. Secondly, the real estate that universities might want is often pre-zoned for something else.

"Doing student housing is not as easy as it seems," observes Arlon Brown, SIOR, a senior advisor for SVN/Parsons Commercial Group Boston. "Although there is a lot of student housing development going on here, it is a very involved process. It's more than just saying I have a building or a piece of land and I'm

going to build student housing. You just can't wave a magic wand."

Recently, Brown was doing work for an architectural client that specialized in assisted living, when it veered off to do student housing for the University of Massachusetts in the town of Amherst. The problem: although the intended property was zoned residential, only by special permit could someone build student housing. That required a repetitive circuit through town meetings and the Zoning Board of Appeal.

The Amherst tribulations were not unique.

"All the schools in Boston are expanding," Brown reports. "Partly, because the U.S. student population is becoming international and affluent and the universities are trying to capture these learners. At Boston University, my alma mater, they recently built apartments, which is more expensive than the usual dorms, as they have started to stratify housing costs. When I was there, it was

just one price for every dorm, now it depends on what level of housing you want.”

All universities are competing for students and that often puts the universities in competition for land that could be used for other projects, mostly conventional multifamily, but also retail or research. Mostly, this is a problem in the bigger cities such as Boston, but not necessarily in smaller college towns, which have their own dynamics.

Student housing development remains quite active. The bulk of new student

It's not hard to see why. According to CBRE research, although the cap rate between student housing and conventional multifamily has compressed in recent years, student housing still retains a yield advantage. Multifamily cap rates averaged 5.67 percent in 2016, according to Real Capital Analytics, representing a 20 bps (basis points) spread between multifamily and student housing cap rates.

Investors are attracted to this spread.

CBRE concludes: “Student housing offers a yield premium over

consecutive year of all-time record transaction volume.

(Approximately \$3.3 billion of the \$9.8 billion transacted last year was attributed to two large deals, the acquisitions of Campus Crest and University House portfolios. However, even when excluding these two events, transaction volume was still 15 percent over 2015 volume.)

“A lot of people believe it is an alternative asset class that has attractive fundamentals and includes a yield spread over multifamily,” says Jaclyn Fitts, CBRE’s national director of Student Housing.

Additionally, data points to student housing being somewhat recession resilient, so when the downturn in the mid-2000s occurred and multifamily values dropped as much as 20 percent in some markets, student housing continued to increase in value during that time period, says Fitts. “When the economy gets tough, people go back to school.”

Finally, there was an institutional investor shift. In regard to student housing, institutional capital was on the sidelines for a long time. It was a market of mostly private buyers. Eventually, institutions, looking for better returns, thought this sector big and established enough.

“A lot of capital (including foreign capital) continues to look at that sector” says Rice.

“Their numbers aren't big yet, but they are definitely growing.”

That has spurred new construction.

“Three academic years ago we saw the most deliveries we had ever seen,” says Fitts.” It has pulled back a little from that number, but we are still seeing

“The demand for student housing has been so prevalent, it has now affected the office market.”

housing has been in the big college towns due to strong demand. There is some new supply also in larger metros as diverse as New York, Phoenix, and Dallas,” notes Jeanette Rice, head of multifamily research for CBRE.

In towns with universities, conventional multifamily is an after-thought.

“The thing to keep in mind,” says Rice, “is that in a lot of places where we have universities, we don't have as much conventional multifamily. In urban areas we do, but in college cities we don't. The conventional housing in these markets is more A- or B, so the price points don't compete with the new supply of student housing. In college towns, the investments are going to student housing.”

conventional multifamily. For all student housing transactions, the average cap rate spread has averaged only 10 bps over the last two years. However, in major metros with large universities, the spread has averaged approximately 50 bps.”

If investors prefer one sub-sector of the real estate market to another, that's where the money flow will be, and developers will build to investor demand. So, let's take a look at this phenomenon.

The student housing industry's remarkable performance becomes clear when looking at the total 2016 transaction volume of \$9.88 billion, which is \$4.2 billion more than 2015's volume and more than three times the 2014 total, reports CBRE's National Student Housing Group. Indeed, the 2016 market was the sixth

deliveries of around 45,000 beds annually. That number will decline just because lending is getting more difficult and sites are harder to come by."

The trend has been to get as close to campus as possible and have pedestrian properties, so the two student housing behemoths, publically-traded real estate investment trusts, American Campus Communities and Education Realty Trust, have come out to Wall Street saying in effect, "we would prefer that all of our properties in our portfolio be as pedestrian as possible. The two REITs started disposing of their non-pedestrian assets. The institutional equity that has come in also has that same criteria. A lot of development has occurred in pedestrian properties so the sites are a lot harder to find.

Non-pedestrian properties are being developed and delivered, but you don't see that near as often.

The demand for student housing has been so prevalent, it has now affected the office market – in particular the obsolescent side of that vast sector.

Brown observes that many of the smaller universities in the Boston metro area have converted the old mill buildings, which while picturesque, have stood empty for years. In particular, he cites UMass in Lowell.

However, one of the best examples of re-using older office buildings comes from the Midwest, in Omaha, where a local builder, NuStyle Development, is currently breathing new life into the old Creighton University Medical Center, which was being prepared to be shuttered.

"Omaha had too many hospital beds and Creighton had what was going to become a vacant hospital," says Ryan

Zabrowski, SIOR, CCIM, an associate broker at Investors Realty Inc., who brokered the sale of the hospital. "The 800,000-square-foot had been its teaching hospital for the medical school for a number of years. NuStyle Development plans to remake it into a 731-unit apartment complex."

The unique thing about the project was when the hospital was built it had received a lease over an interstate highway that was between it and the Creighton campus.

"The hospital had an air rights easement with the idea that they were going to build a 2,000 stall parking garage for the hospital. It never happened," Zabrowski explains. "What was intriguing to the developer was that he could build a pedestrian bridge over the interstate and connect the campus right to the building thus creating a unique living experience for students and other young professionals."

This wasn't a daunting project for NuStyle because it had already done similar conversions in the recent past.

"Starting back in the early 2000s, Omaha's CBD was faced with a glut of Class C office buildings that were becoming functionally obsolete," recalls Zabrowski. There was, however, a saving grace. Adjacent to the CBD sits Creighton University, a Jesuit institution with 8,000 students and on the western edge of downtown is the University of Nebraska Medical Center, with numerous graduate programs.

NuStyle acquired a group of the office buildings and, over time, converted them to apartments, which today are 30-40 percent occupied by students, with the remainder of tenants mostly young professionals. Today, the apartments are 99 percent occupied, says Zabrowski.

An interesting side note: the tallest of the buildings is 17 stories and was once occupied by Enron, the company that fabulously blew up amidst an accounting fraud scandal back in 2001.

The near future for student housing looks much better than Enron's past. "Last year, the sector experienced 4 percent rent growth and there is still solid and enthusiastic interest in the sector," says Rice.

"We get calls from different groups every day about investing in student housing," adds Fitts. "Recently, I got a call from investors in Bahrain." ▾



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