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Back to School: Residents, Investors Descend on Student Housing

Economy catalyzes surge in enrollments, equity interest in off-campus housing.

By: [Chris Wood](#)

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Keep an eye on that economy. If college and university enrollment trends during the recession are any indication, continued economic stress will likely propel jobless Gen Y renters back to school, and to the off-campus multifamily student housing communities that have supplanted traditional dorm living over the past decade.

According to a recent study by the National Multi Housing Council of 56 public and private universities, freshman applications were up 20 percent from the fall of 2008 to the fall of 2010, with 23 of the schools surveyed reporting an application gain of 25 percent or more. "The study finds encouraging news for the private, off-campus student housing industry," says NMHC vice president of student housing Jim Arbury. "A 20 percent increase in freshman applications during a recession is noteworthy."

The surge in student housing demand has managers and operators in the sector taking on heftier development pipelines and padding their portfolios. On August 10, Philadelphia-based Campus Apartments announced that it had signed on 3,000 beds worth of student housing portfolios in four different markets, including Ann Arbor, Mich.; Tucson, Ariz.; Morgantown, W.Va; and Norfolk, Va. According to Campus Apartments' executive vice president and COO Miles Orth, third-party management is one of the fastest-growing lines of the firm's business.

Health in the student sector is also beginning to attract equity providers seeking yield beyond core and core-plus market-rate investment platforms. "There's a lot of interest in student housing as an investment vehicle," says Austin, Texas-based Campus Advantage executive vice president and chief business development officer Scott Duckett. "Just in the last four months, we've seen a huge increase in the volume of calls from both domestic institutional funds and foreign sovereign wealth funds looking to place sizeable amounts of equity of \$100 million plus into the sector. We've never seen anything like it."

Operators and industry pundits nevertheless caution that student housing isn't without its risks, particularly for greenhorn operators looking to get in on the market. "Firms considering entering this sector should not take it lightly given the unique—and often demanding—requirements for success," Arbury warns. "In some cases, too many firms have jumped into the student housing sector without fully analyzing actual individual markets. This has led to serious overbuilding at some campuses."

Like market-rate multifamily, each submarket and each university tend to have atypical supply and demand factors. "There are certainly some markets that have had a tremendous amount of new development that has conversely led to reduced opportunities for growing rents," says Duckett, who points to Gainesville and Tallahassee, Fla.; College Station and Austin, Texas; and the University of Arizona as large-enrollment universities that have seen substantial recent activity by developers.

For operators finding success in student housing, though, the recession hedge can be an enticing one. "We didn't take a hit with occupancies and rental rate decline," Duckett says. "In a worst-case scenario, we were flat, but we were able to achieve rent growth in most of our markets all the way through the economic crisis. In markets that still have high enrollments with a lack of modern-built student housing, we are still projecting rental growth rates that hit an excess of 10 percent."

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