April 2019

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Abstract
Student housing has emerged in recent years as one of the most in-demand asset classes in commercial real estate. Investors, both domestic and international, have been attracted to U.S. student housing projects for many reasons, including their steady yields and reliable returns during all market cycles (The Economist, 2018). As a result, investment in and development of student housing has increased dramatically over the past few years (Brass, 2018). Even with this increased focus on the sector, opportunities still remain in the student housing industry, particularly for investors and developers with differentiated projects. This paper will examine the current state of the U.S. student housing market and suggest four overlooked opportunities in this market that could provide investors and developers with an edge in the increasingly competitive and crowded environment.

Keywords
Baker, Cornell, Real Estate, Greystar, Toll Brothers, International Student Enrollment, National Real Estate Investor, Temple University, Florida Institute of Technology, Illinois, Student Housing Institute of Technology, Boston University, Philadelphia, The Edge Student Village, Goldrick-Rab, Richardson, Schneider, Hernandez, & Cady, percent, and New York University

This article is available in Cornell Real Estate Review: https://scholarship.sha.cornell.edu/crer/vol17/iss1/19
The U.S. Student Housing Market: Overlooked Opportunities

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INTRODUCTION

Student housing has emerged in recent years as one of the most in-demand asset classes in commercial real estate. Investors, both domestic and international, have been attracted to U.S. student housing projects for many reasons, including their steady yields and reliable returns during all market cycles (The Economist, 2018). As a result, investment in and development of student housing has increased dramatically over the past few years (Brass, 2018). Even with this increased focus on the sector, opportunities still remain in the student housing industry, particularly for investors and developers with differentiated projects. This paper will examine the current state of the U.S. student housing market and suggest four overlooked opportunities in this market that could provide investors and developers with an edge in the increasingly competitive and crowded environment.

U.S. STUDENT HOUSING MARKET

Student housing has emerged as a new and maturing commercial real estate asset class (Hale, 2018). Student housing complexes are rental apartment projects that cater exclusively to students and are located in close proximity to institutions of higher education. Once consolidated into the multifamily residential asset class, student housing has become an attractive investment class in its own right for a number of reasons. For example, student housing provides consistent income, enjoys generally higher yields than traditional multifamily rentals, and is less sensitive to market cycles as university enrollments remain stable and indeed often swell during economic downturns (The Economist, 2018). Indeed, as employment opportunities diminish during a recession, many individuals elect to return to school to weather the downturn and build their skills. As a result, while other sectors of the commercial real estate market may suffer from diminished demand during a recession, student housing projects generally do not experience such reduced demand and may even see increased demand.

Given these fundamentals, investment in U.S. student housing projects has increased considerably over the past five years. Investors poured a record $9.8 billion into these projects in 2016, which represented a threefold increase from 2014 (Brass, 2018). Total investment in U.S. student housing projects did fall slightly to approximately $8 billion in 2017 (Brass, 2018). However, 2018 is projected to be another record-setting year with total investment in these projects expected to exceed $10 billion (Anderson, The Investment Outlook for Student Housing Remains Stable, 2018). Given this appetite from investors, developers have been increasing their production of student housing with 46,000 new beds available for the Fall 2017 semester and 42,000 beds expected to be available for the Fall 2018 semester (Brass, 2018).

The strength of the U.S. student housing market has caught the attention of international investors. Foreign investment in U.S. student housing projects has increased over the last few years, amounting to approximately 36 percent of total investment in the sector in 2017 and 21 percent in 2016 (Fung, 2018). Moreover, in 2016, sovereign wealth funds allocated over 15 percent of their total investment dollars to student housing, an eleven-percentage point increase from their 2011 allocation (The Economist, 2018). At this point in the cycle, both foreign and domestic investors perceive student housing to provide a superior risk-return profile while additionally providing further portfolio diversification (Fung, 2018).

OVERLOOKED OPPORTUNITIES

A number of opportunities in the student housing sector are currently overlooked by many student housing investors and developers, including a growing demand for (1) student housing for international students, (2) student housing developments containing additional uses, (3) more robust student housing options for community colleges, and (4) more affordable student housing options. While some of these opportunities are more readily achievable than are others, investors and developers would be wise to consider these opportunities as they analyze future transactions.

A. Increased Enrollment of International Students at American Universities

While the number of college-aged Americans is projected to decline or at the very least stagnate over the coming years, international students are attending American colleges and universities in significant and increasing numbers. During the 2017/2018 academic year, almost 1,100,000 international students were enrolled at U.S. colleges and universities, a one and one-half percent increase from the prior year (International Student Enrollment, 2019). International
students now comprise over five percent of U.S. college enrollment (International Student Enrollment, 2019). The number of foreign students studying internationally has increased by 40 percent over the past five years alone (The Economist, 2018). China, India, and South Korea are the most represented countries of origin for international students studying in the U.S. (Anderson, International Students Are Major Source of Demand for Student Housing, 2015). International students enrolled at U.S. colleges and universities are split relatively evenly between graduate and undergraduate programs (International Student Enrollment, 2019).

The total number of internationally mobile students is expected to reach eight million by 2025, a significant increase from the 4.5 million such students in 2012 and the two million such students in 2000 (Anderson, International Students Are Major Source of Demand for Student Housing, 2015). The growth of the global middle class, particularly in developing countries such as China and India, has increased the number of students seeking quality higher education. While American universities compete with universities in other parts of the world, particularly Western Europe, the United States remains the top destination for international students (Anderson, International Students Are Major Source of Demand for Student Housing, 2015).

There are several strategies that student housing operators can employ to attract and retain these growing numbers. First, at a minimum, student housing operators must familiarize themselves with the various nationalities that predominate the local college or university. With this knowledge, they can then design a targeted outreach campaign for these students. In many cases, successfully connecting with international students will require substantial improvements to a student housing operator’s marketing, leasing, communications, and customer service platforms and strategies (National Real Estate Investor - Atlanta, 2016).

Second, housing operators should work to forge good relationships with their local institution’s international student affairs office, graduate programs popular with international students, and firms that assist international students in finding suitable housing prior to their arrival on campus (National Real Estate Investor - Atlanta, 2016). These partnerships should prove beneficial for both parties: the student housing operator is provided with a continual pipeline of prospective residents while the referrer is able to assist students satisfy one of their biggest needs and perhaps biggest stress in making the transition to an international program. Of course, this partnership will only continue to the extent that the student housing operator is able to provide residents with safe, clean, and fairly priced accommodations.

Such a partnership need not necessarily be formalized between the housing operator and the university. In fact, most such partnerships will likely be informal and may consist of the student housing complex’s inclusion in information provided by the institution to its students. However, there is an opportunity for student housing operators to further drive demand through more formal partnerships with institutions. It is not uncommon for universities to have preferred providers for certain vendors such as athletic apparel or soft drinks. Depending on the size of a student housing complex, a school’s need for student housing, and the economics of a transaction, a student housing operator may explore a formal partnership with an institution. For example, a developer partnered with Temple University in Philadelphia, Pennsylvania, to develop a 100-unit residential facility for international students, faculty, and researchers as well as students studying international affairs (Temple University, 2010). Referred to as the “Beech International Village”, the website for this community offers translations in Chinese, Dutch, and French.

Third, a student housing operator can undertake some simple steps to make its community more accommodating and attractive to international students. For example, creating a platform that allows students to lease units from abroad can be beneficial (National Real Estate Investor - Atlanta, 2016). In addition, to the extent that international students prefer to room with a similarly situated individual, operators should provide resources to allow international students to coordinate this process (Anderson, International Students Are Major Source of Demand for Student Housing, 2015). Moreover, to ease international students’ transition to America, operators should ideally have someone on staff who can communicate with these students in their native languages and, to the extent that a community serves food, its menu should include some options appealing to them (Anderson, International Students Are Major Source of Demand for Student Housing, 2015). Increasing its staff’s multicultural awareness through training is also advisable for a student housing community seeking to attract and

1 Due to a campus-wide student housing shortage, this community was recently opened to all students (Paige Gross, 2017).
retain international students (National Real Estate Investor - Atlanta, 2016). A student housing complex that successfully attracts and retains international students is likely to attract additional students to the community (Anderson, International Students Are Major Source of Demand for Student Housing, 2015).

It must be cautioned that attracting international students will not be a successful strategy for all student housing complexes as they are not uniformly distributed among American colleges and universities. In addition to Ivy League universities, international students are predominantly attracted to tier-one research universities and world-famous schools, particularly those with strong technology programs. Examples of universities with a large number of enrolled international students include Florida Institute of Technology (33 percent), Illinois Institute of Technology (30 percent), Boston University (19 percent), and New York University (15 percent) (Anderson, International Students Are Major Source of Demand for Student Housing, 2015).

Global and domestic factors can affect international student enrollment at U.S. colleges and universities. For example, as a result of the sharp decline in oil prices, the government of Saudi Arabia significantly downsized their study-abroad scholarship program, which affects the fourth largest group of international students attending U.S. colleges and universities (National Real Estate Investor - Atlanta, 2016). Domestic factors can also suddenly shift and impact international student enrollment such as the imposition of a travel ban on certain countries as well as the tightening of rules on visas for international students studying in the U.S. (The Economist, 2018). Finally, while the number of international students studying at U.S. colleges and universities has increased substantially over the last decade, the pace of this growth has slowed markedly over the past two years (International Student Enrollment, 2019).

B. Student Housing as Part of a Mixed-Use Project

Coupling student housing with complementary uses can create additional value by providing built-in demand from the student residents, satisfying desires for nearby services and amenities, and allowing developers to incorporate higher risk but higher return property types that can increase their yields (Booty, 2018). Indeed, student housing complexes with additional uses often have higher rents and trade for higher values than do standalone student housing complexes as they more effectively cater to students’ preferences for a combined live, work, and play environment and often are situated in locations where the other uses can thrive (Friedman, 2015).

Two of the most popular uses to combine with student housing are retail and hospitality (Rosario, 2018). Retail is a natural complement to a student housing project with tenants ranging from restaurants and coffee shops to
Accordingly, hotels allow visiting parents, friends, and alumni space to stay in proximity to the students and campus (Rosario, 2018). In addition, student housing projects are increasingly incorporating an office component to provide space for students to interact with the business community in often creative office spaces (Booty, 2018). This space can be rented out to student groups or even potentially to a nearby university (Booty, 2018).

While incorporating other uses in a student housing project is an increasing trend, it still only amounts to approximately 20 to 25 percent of the projects being developed in 2015 (Friedman, 2015). Developers should not automatically create additional uses in a student housing project and must first ensure adequate demand for such uses exists. For instance, additional uses should be avoided if the space will be difficult to lease to reputable tenants or will result in increased construction costs that do not outweigh the additional revenue (Nyren, 2016). Another concern is the increased complexity that a mixed-use project can entail with regard to obtaining financing though this can generally be overcome (Friedman, 2015).

C. Demand at Community Colleges
Two-year community colleges are often overlooked by student housing developers despite the fact that, for instance, “42 percent of all undergraduate students and 25 percent of all full-time undergraduate students were enrolled in community college” in the fall of 2014 (Ma & Baum, 2016). While four-year colleges remain the focus of most private student housing development, two-year colleges have experienced increased development of private student housing in recent years (Pena, 2017). Compared to the tens of thousands of student housing beds delivered annually at four-year colleges, however, the total number of student housing beds delivered at two-year colleges in 2017, the best year since 2014, barely exceeded 1,000. Despite these small numbers, some in the industry believe that student housing developers will increasingly seek sites near community colleges (Brass, 2018).

Additional caution must be exercised when considering a project near a community college due to certain unfavorable demographic trends and funding concerns. Enrollment at two-year colleges has been declining since 2010 as students put off community college while the economy is strong and unemployment is low (Smith, 2018). If the economy weakens, enrollment is expected to increase, though shifting demographics portend future challenges in the middle of the next decade (Smith, 2018). Further, two-year colleges have seen their funding allotments decrease significantly over the past decade with eight states experiencing declines in excess of 30 percent (Smith, 2018). While many of these trends are affecting four-year colleges as well, the impact is more pronounced on two-year colleges given their smaller size and budgets. Therefore, student housing developers should seek high-performing two-year colleges that are able to attract students during all market cycles and that have secure funding sources.

D. Demand for More Affordable Options
As the costs of higher education and housing continue to escalate, there is a growing need for more affordable student housing options. Indeed, after tuition costs, housing is a student’s biggest cost (Pimentel, 2019). According to a study published last year, 36 percent of students attending

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2 By one estimate, student spending exceeds $15,000 per year for the average college student (Friedman, 2015).
four-year universities qualified as “housing insecure”, which is defined as experiencing a “set of challenges such as the inability to pay rent or utilities or the need to move frequently” (Goldrick-Rab, Richardson, Schneider, Hernandez, & Cady, 2018). The situation is even more dire for students of certain ethnic groups, with housing insecurity affecting 43 percent of Black and 58 percent of Native American students attending four-year universities. These statistics underscore the significant market need for affordable student housing options, particularly as growing numbers of diverse students are attending college.

As is the case with affordable housing generally, significant barriers currently impede the private sector’s ability to meet this need, including rising land and construction costs as well as restrictive governmental regulations (Pimentel, 2019). While large units and lavish amenities were hallmarks of many student housing developments completed over the past few years, future developments that seek to offer affordable options should instead focus on smaller units with more limited amenities in order to reduce costs (Pimentel, 2019). Moreover, to control costs so that they can provide student housing at more affordable prices, developers may be able to ground lease land from universities at a discounted rate as long as they pledge to provide affordable student housing.

**CONCLUSION**

With the U.S. student housing market attracting more and more attention, both domestically and internationally, due to its strong fundamentals, developers and investors are constantly searching for innovative ways to differentiate and add value in their projects. This paper has suggested four overlooked opportunities that currently exist in the student housing sector, including (1) providing housing to the large and growing population of international students attending U.S. colleges and universities, (2) incorporating other uses in a student housing project to create a dynamic mixed-use development, (3) developing more student housing for currently underserved community colleges, and (4) focusing on meeting the demand for more affordable student housing options. Each of these opportunities holds the promise of providing student housing developers and investors with an innovative strategy that will differentiate and add value to their developments.

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3 Housing insecurity is even more acute for community college (Goldrick-Rab, Richardson, Schneider, Hernandez, & Cady, 2018).

**WORKS CITED**


