

For Student Housing Investors, the Test Starts Now

Thousands of Off-Campus Apartments, Valued at More Than \$1 Billion, Are on the Block



Among the student housing properties on the market is Uncommon Tuscaloosa, just steps from the University of Alabama's Bryant-Denny football stadium. (CA Ventures)

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The student housing investment market, which became a darling of big investors during the past decade, is facing a big test this fall.

At least \$1 billion of student housing properties are being pitched to investors right now. And that wave of offerings arrived during a chaotic start to the academic year, when

many universities are transitioning to online classes during the COVID-19 pandemic as apartment executives are concerned students will stay at home.

Sellers are betting the appetite for student housing won't be lost in the disruption, and that confidence in the long-term prospects of the sector remain strong. Sales of student housing have soared in recent years. Since 2014, student housing investment has tripled, according to research from real estate services firm CBRE, to \$11 billion in 2019.

Brokers are arguing that students right now are largely honoring the leases they signed before the shutdown and that even in a remote-learning world, most will want to live around campus anyway. And schools, which are making their own housing less dense — with fewer double, triple and quad dorm suites — are fueling demand for off-campus, private housing.

“The people that float that idea out there that student housing is crashing don't have a full understanding of what's going on,” said Peter Katz, executive managing director and head of student housing sales for brokerage Marcus & Millichap's Institutional Property Advisors division. “Off-campus demand for housing is climbing.”

For Katz and others, the continued appeal of student housing comes down to a combination of factors. Number one, despite any havoc this school year's chaos may wreak on the sector, the long-term prospects of student housing remain rosy: college and university enrollment continues to grow, even as universities stop building their own dorms and apartments.

And in the short-term, the shifting sands of the student housing sector may not be as disruptive as some had predicted.

If investors remain as enthusiastic through the pandemic as they had been previously, they have plenty of targets for their money.

In June, Preferred Apartment Communities of Atlanta hired CBRE to market its eight-property, 6,095-bed student housing portfolio spread out from Texas to Florida. It's valued at \$480 million altogether, though bidders can compete for individual properties.

Soon thereafter, Bahrain-based investment giant Investcorp listed a three-property, 1,963-bed package of multifamily assets in Florida and Georgia near large universities. That portfolio is expected to sell for about \$280 million.

Also, in July, Corporate Pointe Developers, of Pullman, Washington, put up for sale a nine-property portfolio in Washington state valued at roughly \$235 million.

Investor Demand

In August, [Chicago's](#) CA Ventures, which recently rebranded to just CA, added a pair of properties — one near Pennsylvania State University and the other at the University of Alabama — to the market. That 1,051-bed package is expected to trade for \$250 million, based on current values. Katz's IPA team has that listing.

Last week, Rialto Capital Management of Miami sold a 1,087-bed property near Georgia Southern University in Statesboro for \$45.2 million.

How pricing works out on those big packages will be clarifying about how student housing is regarded going forward.

Michael Buckley, a university relations manager for CoStar's Off Campus Partners arm, cautions that while some of the changes wrought by the pandemic may increase demand for student housing, there are also unknown effects. And the remarkable growth of student housing over the past decade was set to slow even before the pandemic, said Buckley, whose business provides listing and software and advisory services for the student housing sector.

There has been a steady stream of new upscale student housing projects, especially near the big Southern and Midwestern state schools that are out of the dorm-building business. Supply may have caught up with, or surpassed, demand even before the pandemic.

"The economic cycle was already getting long," he said, with yields falling. "People are trying to figure out what the long-term prospects are."

The biggest student housing owner-operator is Austin, Texas-based American Campus Communities, or ACC. It owns 170 properties, with more than 109,000 beds in and around 68 schools. On the real estate investment trust's most recent earnings call, CEO Bill Bayless said his firm's apartments were 90% preleased for the academic year, down just 3.4% over the same time last year.

He called the pandemic disruption at universities a "black swan event" for the apartment sector.

"While we do not believe there will be a full return to normalcy in the fall of 2020, we are cautiously optimistic at this time," he said.

Bayless thinks schools will want to return to in-person as quickly as possible, and that the off-campus apartments — with private bathrooms allowing for better sanitation — may rise in appeal during the pandemic.

But maybe most of all, is the pull for students to have some modicum of the campus experience, what he described as a "desire to be in the college environment with their peers versus at home with mom and dad even if instruction is being delivered predominantly online."

