

CLIENT PERSPECTIVES

STUDENT HOUSING INVESTORS' KEY INSIGHTS

The Cushman & Wakefield Student Housing Team launched its inaugural Client Pulse Survey: Student Housing Edition in October 2018 to capture a real-time gauge of how student housing investors are specifically navigating the current market. As a result of the survey, we have uncovered some key insights:

- 1) Asset Class Insight** - 80% of investors are focusing on Core+ and Value-Add student housing assets compared to 55% targeting Core assets. This trend follows non-student housing multifamily investors, 83% of whom indicated in the 2018 Client Pulse *general* survey that they are targeting Value-Add multifamily deals.
- 2) Walkability Insight** - 93% of investors surveyed target assets within one mile of campus, half are targeting properties within 1-3 miles of campus and only 14% are targeting properties farther than three miles away.
- 3) School Category Insight** - Power 5 Conference (64%), enrollment between 10,000 and 20,000 students (57%), and enrollment greater than 20,000 students (79%). Only 11% of respondents are targeting universities with enrollment of 10,000 students or less.
- 4) Cap Rate Insight** - Approximately 30% of surveyed investors reported no significant change in student housing cap rates since 2016, while 45% reported a 25 to 50 basis-point increase. This is in contrast to the general investor client survey responses, of which 82% showed cap rate declines and 47% showed declines of 50 bps or greater.
- 5) Pricing Insight** - The surveyed student housing investors demonstrated an acceptance of higher pricing since 2016, half of whom noted that their target price per bed for similar deals have increased by 5-15% compared to just over a quarter showing flexibility on pricing as high as a 15-25% increase. These results roughly mirror those from the general Client Pulse survey among general multifamily investors. According to Real Capital Analytics, the average student housing price per bed has actually increased by 7.7% per bed in the past four quarters compared to the prior four quarters.

DEMAND OUTLOOK: STUDENT HOUSING FUNDAMENTALS

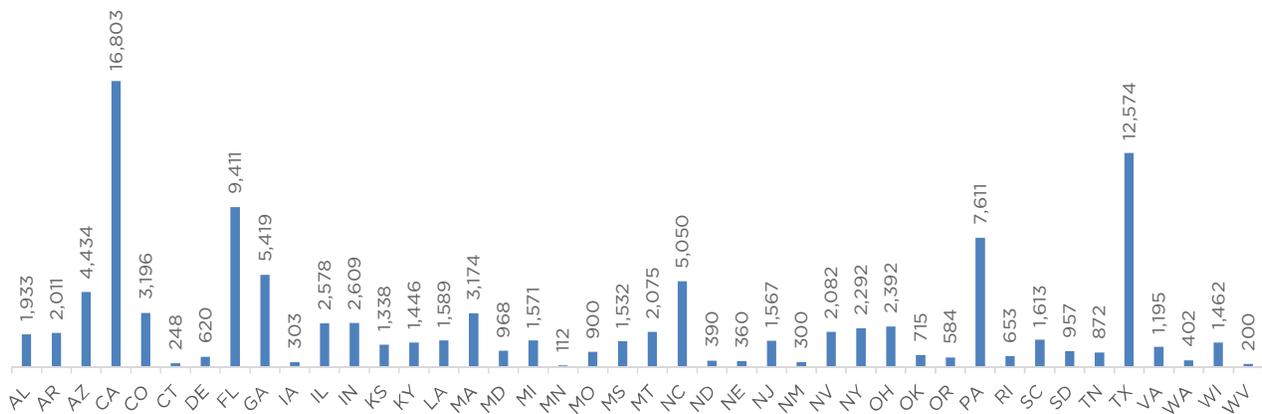
Demographics. Undergraduate student enrollment shows signs of gaining momentum in the coming years. The National Center for Education Statistics (NCES) reported that total undergraduate enrollment increased by 37% from 2000 to 2010, reaching 18.1 million by the end of the decade. Using 2016 as a base year, the U.S. Department of Education, NCES, and Integrated Postsecondary Education Data System (IPEDS), NCES projects that undergraduate enrollment will grow to 17.4 million students through 2027 at a rate of 3%, regaining some ground lost (7% decrease) in the recovery period following the Great Recession (2010-2016).

The key underlying drivers of undergraduate student enrollment are: college-age population growth (18 to 24-year-olds), high school graduation rates, university acceptance rates, affordability, and the return on investment (ROI) of a degree. The trend over the past decade has been positive. According to NCES, the adjusted cohort graduation rate (ACGR) among high schoolers was 84% in the 2015-2016 school year (most recent data available), which is a high since 2010-2011. In terms of ROI, the average bachelor's degree holder can expect to earn approximately 66% more than the average high school graduate over a 40-year period of employment, according to College Board's analysis of 2008 US Census Bureau data. The actual ROI, however, varies more widely based upon institution and degree. Overall, the projections for student housing fundamentals are positive even if not as strong as 2000 to 2010.

Construction Pipeline. Is the supply of student housing keeping up with demand? According to AXIOMetrics, approximately 205 student housing properties are under construction, totalling more than 107,000 beds and more than 42,000 units. Of these, a little over half are on-campus properties and more than 35% are mixed-use.

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Construction Pipeline (continued). The volume of student housing deliveries in 2018 is an increase over 2017; however, it is roughly 25% lower than the historic peak of student housing construction in 2014. In the next five years, the population ages 15 to 24 is projected to increase by nearly 94,000 or 0.2% from 2018 to 2023. Half of new construction is on-campus and it is worth noting that the new construction among many schools does not produce significant net new supply, as universities are recognizing that their legacy on-campus housing units that consist of older, sparsely amenitized dormitory buildings require modernization or full replacement in order to attract today’s discerning student. The following graph illustrates the number of beds under construction by state according to AXIOMetrics. Unsurprisingly, construction in states such as California, Florida, and Texas is high.



Affordability. Similar to multifamily trends, affordable student housing has arisen as a growing issue. The U.S. Department of Housing and Urban Development (HUD) published a report in February 2015, “Barriers to Success: Housing Insecurity for US College Students,” which addresses student housing insecurity. Published room and board costs increased by 54% and 44% for four-year public and four-year private undergraduate programs, respectively, between 1994 and 2014. During the same period, published tuition rates increased 109% for four-year public institutions and 63% for private. Shockingly, approximately 56,000 students reported that they are homeless on their FAFSA application.

According to CollegeBoard, “The average published tuition and fee price for full-time in-state students at public four-year colleges and universities is \$10,230 in 2018-19, \$250 (2.5% before adjusting for inflation) higher than it was in 2017-18.” And, “The 2018-19 increase in published tuition and fees was largest in the private nonprofit sector, where the average price increased by 3.3% (\$1,130) to \$35,830.” However, mitigating this tuition trends is the fact that the percent of students paying full published price of tuition at private colleges is approximately 12%, and first year undergraduates at private colleges received grants covering 56% of tuition according to the National Association of College and University Business Officers.

Transaction Volume & Pricing. Student housing transaction volume in the U.S. this year reached nearly \$6.1 billion, which is more than \$716 million or 13.4% higher than the same period in 2017. At 13.4% from 2017 to 2018, the increase in student housing sale volume slightly outpaced that of all multifamily housing in the U.S. at 11.3%.

The majority (53%) of student housing investors are the Private Capital space followed by Institutional (30%). Cross-border capital played a huge investor role in 2017 at 37%, but has since waned to 14% in 2018 year-to-date. The most active buyers in the student housing space in the past 12 months include Scion, Greystar, CPP Investment Board, GIC (Singaporean sovereign wealth fund), Blackstone Group, and Allianz among others.

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THE SURVEY'S FOCUSED FINDINGS

Asset Targeting. Eighty percent of investors are focusing on Core+ and Value-Add student housing assets compared to 55% targeting Core assets. Student housing product has made leaps and bounds in the past decade in order to attract students by offering non-double occupancy, virtual learning space, study lounge space, on-demand video digital classes in fitness centers, and resort-style rooftop pools. As these students graduate and become “mainstream renters,” their demands are now higher on the amenities that conventional multifamily housing product offers.

Maximizing demand through volume. The majority of investors who responded are targeting Power 5 Conference (64%), enrollment between 10,000 and 20,000 students (57%), and enrollment greater than 20,000 students (79%), indicating a basic fundamental that housing at larger schools has higher buyer competition. Purpose-built student housing developers are largely targeting public institutions who do not have the capital, bandwidth, or space to build housing. Only 11% of respondents are targeting universities with enrollment of 10,000 students or less. Smaller private universities tend to have larger pools of money to draw from in order to build on-campus housing; and, any decision the school makes regarding housing could have a significant impact on off-campus housing demand off-campus.

Sticking with student housing? In the survey, only a handful of investors surveyed are diversifying into senior, conventional, and LIHTC (tax credit) multifamily properties. Several conventional multifamily heavy-hitters are doubling-down in the student housing space. Greystar Real Estate Partners acquired Edr Student Housing REIT in September 2018 for \$4.6 billion, increasing its student housing activity on both a global scale and in the public-private partnerships (P3) space, thereby competing with American Campus Communities Inc. and other prominent P3 developers across the country. As previously mentioned, the largest players in the student housing investor space are a good mix including Developers/Owners, Pension Funds, Public and Private REITs, and Sovereign Wealth Funds.

Maximizing location advantage. Walkability to campus (location within one mile) is a major determinant of target assets. Ninety-three percent of investors surveyed target assets within one mile of campus, half are targeting properties within 1-3 miles of campus and only 14% are targeting properties farther than three miles from campus. According to AXIOMetrics, the average distance to campus among new construction properties is 0.3 miles. As previously stated, construction activity remains strong, but below historic levels. Further, walkability has become a deepening pressure point in student housing as studies show that on-campus housing requirements help boost student retention because it promotes connectedness to the university early on. Therefore, more schools that did not have freshman year housing requirements are implementing them. This idea of greater physical connectedness being a key success factor for institutions adds greater weight to private student housing proximity to campus. And, a side effect of the on-campus housing requirement is to push previously on-campus upperclassmen to live off campus.

Connecting on pricing expectations? Student housing investors surveyed demonstrated an acceptance of higher pricing since 2016, half of whom noted that their target price per unit for similar deals have increased by 5-15% compared to just over a quarter showing flexibility on pricing as high as a 15-25% increase. Only 17% reported no significant change. Similarly, promised returns for student housing have decreased for nearly 70% of respondents. Contrary to general multifamily trends, investment timelines for student housing has remained stable for the majority of respondents. Per Real Capital Analytics, the average student housing price per unit in the U.S. over the past four quarters is nearly \$209,000, a 7.7% increase over the prior year, which is in line with the survey results. The average cap rate is 5.8% and has increased by less than 10 bps, demonstrating a bit of a disconnect.

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