

Opportunities in purpose-built **STUDENT HOUSING**

Analyzing parental guarantor income levels for students at four-year public universities can yield interesting insights.

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Student housing has provided a unique investment opportunity for investors seeking consistent and stable returns provided by the ongoing demand generated by students attending four-year public and private universities in the U.S. Students continue to seek university degrees because of the tangible, long-term career and economic benefits received by degree holders. The total U.S. higher education market consists of approximately 13 million students attending public and private four-year universities, many of whom live in student housing for at least part of the time they are enrolled in school.

The student housing sector is comprised of: (i) off-campus student housing facilities operating under a 12-month lease model; and (ii) on-campus, university-affiliated student housing facilities operating under an academic lease year model.¹ Most public university students live in on-campus housing their freshmen year, either as a university requirement or as a rite of passage. Subsequently, many leave

¹ Harrison Street research found that the average U.S. public university can house approximately 30% of its students in on-campus housing.

² Harrison Street owns approximately 80,000 student housing beds across a wide range of U.S. public and private universities.

³ *Trends in College Pricing 2018*, The College Board.

⁴ Bureau of Labor Statistics press release, *Usual Weekly Earnings of Wage and Salary Workers, Fourth Quarter 2018*, January 17, 2019.

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university housing after their first year, either because it is not an option or students no longer prefer to be subject to university residence rules.

Off-campus student housing fills the need for student accommodation created by a structural undersupply of on-campus housing at public universities. The off-campus student housing industry is characterized by purpose built, privately owned, and highly amenitized student housing facilities located near university campuses. They come as furnished units, with amenities designed for students, and are leased annually by the bed. This category of student housing accounts for approximately 20% — and growing — of the available housing stock in public university housing markets. On-campus and non-purpose-built off-campus housing and living at home round out the housing options for students.

Perceptions around purpose-built student housing abound, but one that has long intrigued us is that only affluent students occupy purpose-built

student housing. We wanted to test this notion utilizing actual recent data collected from our student housing portfolio as we suspected student housing was occupied by students from all demographic segments.²

Considerations in pursuing higher education in the U.S.

Because it is becoming ever more expensive to attain a university degree, the decision-making process of pursuing higher education in the U.S. has become more complex for students and their parents.

The total all-in cost over the course of a student's higher education, assuming no financial aid and four-year enrollment, is approximately \$103,500 for an in-state public university education. Out-of-state public education is approximately \$168,000, compared to \$210,000 or more for a private university education.³

Despite these sums, data shows that degree holders aged 25 years and older earn approximately two times what

non-degree holders earn. The average 2018 median earnings for degree holders was \$66,200 annually, compared to \$36,500 for high school graduates. Considering the average student loan balance of \$26,500, the payback period for a degree holder averages just over a year.⁴

Taking together the cost of higher education and average salary of degree holders, the public or state university in-state tuition option is the best value in higher education. Students are increasingly selecting schools based on this attribute. This shift is not only driven by economics, but also by the quality of academics at state universities which are becoming a preferred choice for students who may have previously enrolled in private universities.

Students who want to attend, or are attending, college must weigh multiple factors, including increasing tuition costs, which can lead to higher student loan balances, and the likelihood that the desired degree will lead to a job after graduation. Sensitivity to the all-in cost of college — tuition combined with

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⁵ Includes universities from the major sports conferences including the Big Ten, Pac-12, ACC, SEC, and Big 12.

⁶ Common Data Set — Alabama and Clemson: At Alabama from 2008 to 2018 applications grew from 14,000 to 38,000, undergraduate enrollment went from 21,000 to 31,000, enrollee top ACT scores (30–36) grew from 50% to 71% of students and out-of-state undergraduate enrollment went from 24% to 59%. Clemson saw enrollment grow from 14,500 to 26,000, applications increase by 5,000 annually, top ACT scores (30–36) go from 86% to 95% and out of state undergraduates grow from 29% to 34%.

⁷ Anderson, Michael. 2017. *The Benefits of College Athletic Success: An Application of the Propensity Score Design*. MIT Press.

⁸ The guarantor's gross monthly income must total three times the sum of the highest monthly rental rate, have verifiable employment and a verifiable source of income. A credit check is processed on all guarantors where a credit score of 500 or above is required, a score below 500 requires a prepayment of two months rent.

room and board — and the return on that investment has increased.

The analysis

To test our hypothesis that only affluent students occupy purpose-built off-campus student housing, we used our data from student housing properties at 45 different public universities across the country. The universities ranged from leading “Power 5”⁵ or flagship institutions with more than 55,000 students to regional public universities with 20,000 students.

Power 5 schools and flagship schools are of particular interest to student housing investors. These research-driven, brand-name schools that also have the best athletic programs in the revenue sports of football and basketball provide the best public options for today's undergraduates. Typically universities that achieve success in sports on a national level see corresponding increases in enrollment, which is a primary driver of student housing demand. This is a key consideration for investors. For example, the University of Alabama's and Clemson University's football programs have achieved great success since the hiring of their respective coaches. At the same time, the schools have increased their attractiveness to prospective students as all the key enrollment metrics we seek when underwriting a student housing transaction have significantly improved.⁶

Academic research also supports the view that winning sports programs see applications, enrollment rates, and admission test scores increase, while selectivity or acceptance rates decline.⁷ All are positive for student housing investment.

For this analysis, we utilized parental guarantor data at geographically and

academically diverse public universities across approximately 28,000 individual leases for the 2018–19 academic year. We chose parental guarantor data because institutional student housing properties require signed parental guarantees and credit reports from the parents of the prospective student tenants. These credit reports provided us with the ability to anonymously analyze several important pieces of data, including parental annual income data (self-reported) and the parent's zip code of origin. This data is otherwise not available. When we started analyzing this data, we felt it could help us to better understand the income profile and credit quality of the student housing tenants at the property level.⁸

Exhibit 1 compares the portfolio data for off-campus housing between a portfolio of 45 schools and an additional two schools — School A and School B — to demonstrate the variance found between parental income levels at

various types of public universities. As comparison properties, School A and School B are newer mid-rise assets, proximate to campus with full amenity packages. These properties are not entirely comparable to the portfolio properties, but are representative of the range of properties and the price differences that exist among student housing properties in the market today.

A recurring question the student housing industry seeks to understand is the relationship and income differentials between: (i) in-state students and (ii) out-of-state plus international students. Logic suggests that out-of-state students who often pay three times the in-state tuition rate, and international students who pay even more, have a greater ability to afford off-campus student housing. The data in Exhibit 2 supported this notion as guarantor levels on average were \$132,000 for out-of-state students and \$119,000 for in-state students. Out-of-state students

Exhibit 1: Public university income and student housing rental data

2018/19 school year	School A	School B	Portfolio (45)
Annual average guarantor income*	\$510,680	\$294,600	\$122,450
Median family income at school**	\$111,000	\$119,000	\$92,460
Purpose-built monthly rent (4X4 unit)*	\$1,300	\$750	\$506

* Harrison Street data.

** Opportunity Insights 2017 study on median family income at U.S. universities.

Source: Harrison Street.

Exhibit 2: Guarantor levels for in-state and out-of-state students

Student status	Leases	Average guarantor income	Median guarantor income
In-state	18,200	\$119,000	\$68,000
Out-of-state	5,300	\$132,000	\$78,000
Total	23,500	\$122,000	\$70,300

Source: Harrison Street.

comprised approximately 22% of the total tenants across the portfolio.

One final note was the composition of international students in the portfolio. They came from a surprisingly diverse set of 82 different countries and made up approximately 6% of the portfolio. Chinese students comprised 61% of all international students (they comprise about 50% of students at all U.S. universities), followed by Saudi Arabia (8%), South Korea (6%), and India (5%). That 6% international students comprise 6% of the portfolio is consistent with the 5% overall U.S. higher education international student enrollment figures.

Conclusions

The data demonstrates that off-campus, purpose-built student housing spans all income levels and is not just for the affluent, as it provides a viable housing alternative to on-campus student housing and other off-campus housing alternatives.

In most cases the higher the guarantor incomes levels at the portfolio properties, the more student tenants were able to rent higher priced units.

We found that guarantor income levels at the portfolio properties generally reflected the parental income levels that would be representative at these types of more moderately priced properties, compared to the higher priced properties in School A and School B that had significantly higher guarantor income levels.

Out-of-state parents showed higher guarantor income levels which is consistent with the fact that they are already paying much more in tuition than their in-state peers.

We were moderately surprised to find that approximately 300 residents or 1%

of the portfolio residents had annual qualifying incomes of more than \$1 million. These higher incomes were widely distributed across schools and geographies, so no state or region claimed an abundance of these wealthy people. While the incomes seemed a bit out of place, it is not that unusual as most students want to live with friends and do not always care to be in the best or most expensive property on campus.

We have been analyzing this type of data for several years utilizing guarantor income data and student/parent origin

data to compare to the all-in costs of attending various institutions to determine the potential student housing assets possess to attract different types of student. This data helps us guide our investment process and is one of many tools utilized to shape our student housing investment strategy. ♦

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