

# US Student Housing Market Topics and Trends - Q2 2020

The Student Housing market in the United States has seen steady growth due to continued expansion of higher education. Student housing consists of off-campus houses, apartments, and condominiums. However, COVID-19 has disrupted the market, and universities and colleges nationwide were forced to close and move online. As such, the consistent growth of the market has momentarily subsided. This report analyzes the trends in market fundamentals and investment sales in the nation's Student Housing market.

## **FEATURE: COVID-19 and its Impact on the Market**

In Mid-March 2020, the Global COVID-19 Pandemic led to a global slowdown of commercial and academic activity, with municipalities across the US enforcing lockdowns and travel bans. These actions have negatively impacted student housing as schools were forced to move to online education for the rest of the spring semester, eliminating the need for proximity to campus.

## **Short Term Impact**

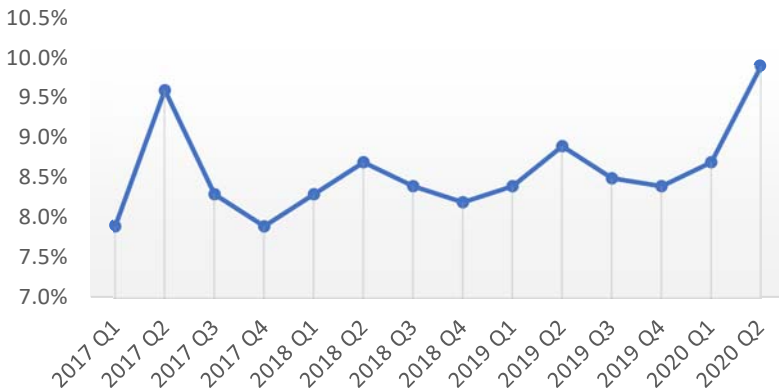
In Q2 2020, student housing sales volume and sales price per bed saw a significant decline. Compared to Q1 2020, US student housing sales volume dropped by 91% and the sales price per bed dropped by 63%. The shift from in-person schooling to online schooling has caused a significant drop in new investments. In addition, vacancy rates have increased, rental rates

have decreased, and the average cap rates have decreased in Q2 2020. Net absorption of units has not shifted from its previous trend even though Q2 2020 is lower than the prior two years. The question of reopening schools in the fall has yet to be decided and will most likely be on a university by university basis.

## **Long Term Impact**

The student housing market is in a precarious situation over the long term because the market is dependent on the reopening strategies of the schools around the country. The plans range from in-person, online, and hybrid classes for the semester, reducing the capacity of their on-campus housing which mainly includes residence halls and affiliated apartments, and reducing athletics to mitigate any health concerns over the pandemic. The California State University system, the largest university system in the US, has moved fully online for the semester. If schools reduce the number of admitted students, this will negatively impact the student housing market because there are less people to occupy the units. However, the student housing market can improve if the schools reduce on-campus housing due to health concerns but continue to offer in-person courses. Many schools around the country are reducing the amount of on-campus housing drastically, which will displace many students. As a result, they will move to off-campus student housing and it will help offset some of the negative impacts on the market in the short-term.

### US Student Housing Vacancy Rates



### MARKET FUNDAMENTALS:

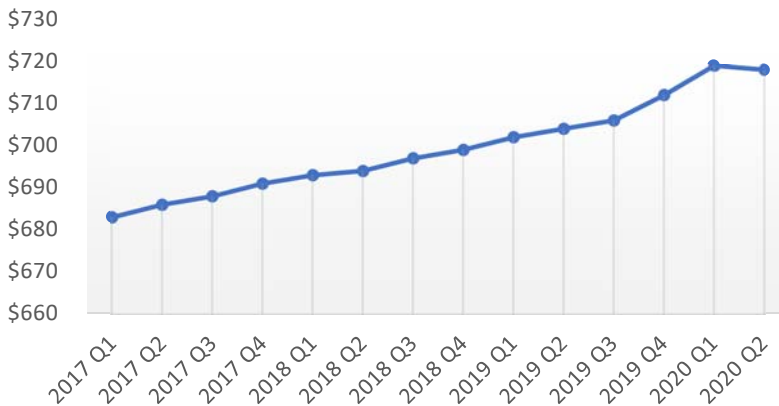
#### Vacancy Rates

COVID-19 has had an impact on the US student housing market, and it shows through increased vacancy rates. The vacancy rate increased from 8.7% in Q1 2020 to 9.9% in Q2 2020. This spike can be attributed to COVID-19, but it is also attributed to the spring semester ending and students moving out. Each Q2 since 2017 has seen a spike in vacancy relative to its time period. If schools continue to remain closed into the fall, the vacancy rate can be expected to follow this upward trend.

#### Asking Rental Rates

The market average price per bed in the US has seen a steady incline since 2017, increasing from \$683 to as high as \$719. However, the incline has flattened and Q2 2020 saw a slight decline for the first time since 2017. In Q2 2020, the market average price per bed is \$718. The uncertainty of how universities and colleges will reopen will directly impact the price per bed, and whether pricing trends move up or down.

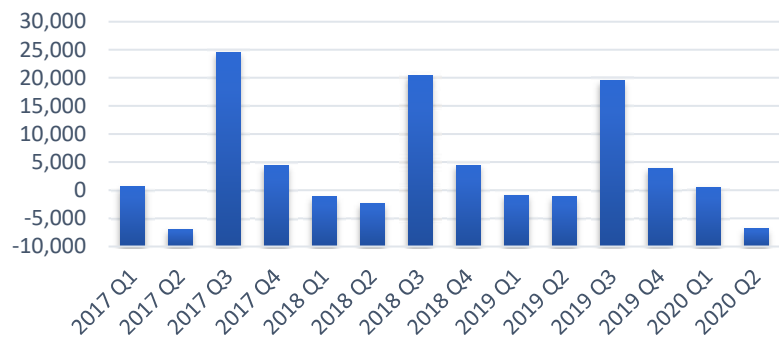
### US Student Housing Asking Rental Rates



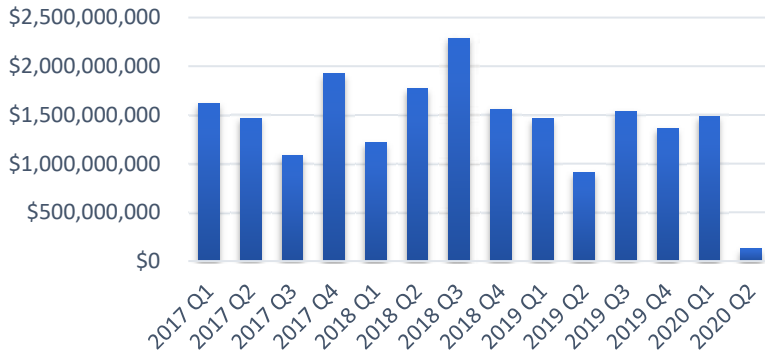
#### Net Absorption and Units Leased

Net absorption by units in Q2 2020 for the student housing market finished with -6,817 units, falling from 521 units in the previous quarter. Even though net absorption is negative during this pandemic, this has been a trend that precedes the pandemic. Since 2017, every Q2 has the lowest net absorption for the year followed by a spike in Q3. This is due to the academic schedule because the spring semester ends in Q2 and the fall semester begins in Q3, with students moving out for the spring and new students moving in for the fall. If universities do not lower admissions, this trend is expected to continue.

### US Student Housing Net Absorbption by Units



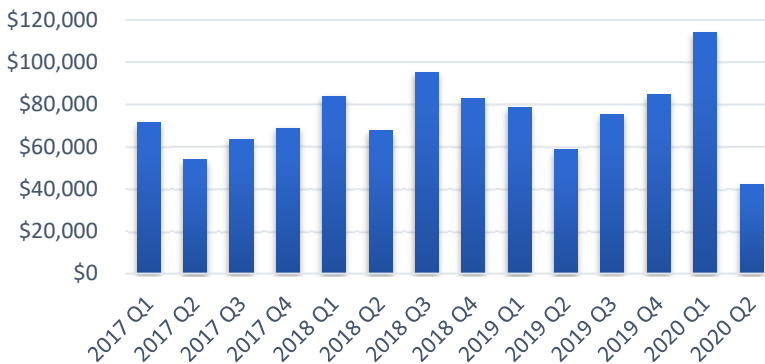
### US Student Housing Sales Volume



### Sales Volume

Total dollar volume for investment sales of the U.S. student housing market has fluctuated since 2017 prior to Q2 2020, ranging from \$907 million to \$2.3 billion. However, Q2 2020 saw a significant drop off in sales volume from previous quarters at \$126,965,125. COVID-19 has negatively impacted investing in all markets in the US, and the student housing market is not immune from its effect. In fact, student housing sales volume has been particularly impacted by the pandemic.

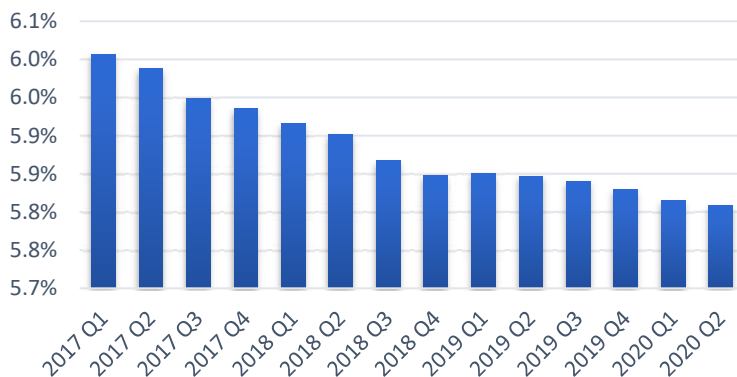
### US Student Housing Sales \$/Bed



### US Student Housing Sales Price Per Bed

The US student housing sales price per bed has experienced a significant drop off from Q1 2020 to Q2 2020, from \$113,867 to \$42,111. Since 2017, the sales price per bed has been on a slight upward trend even though each Q2 within the time period experienced a drop from the previous quarter. The Q2 2020 drop is due to both the low sales volume of units and low total dollar volume for investment sales. The uncertainty of how universities and colleges will reopen will directly impact the price per bed, and whether it trends up or down.

### US Student Housing Cap Rate



### US Student Housing Market Average Cap Rate

Over the recent years, the average cap rate in the US student housing market has been relatively stable, but has maintained a slight downward trend, fluctuating between 6.0% and 5.8%. Q2 2020 is the quarter with the lowest average cap rate in the given time period. The trend represents the decline in returns from student housing investments. The increase in sales price per bed has attributed to the decline in cap rates, but if the sales price per bed continues to decline, it can result in an increase in cap rates in future quarters.

SOURCE: CoStar and Marshall & Stevens



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