

# Student Housing State of the Market

Below is a high-level summary of the call held on June 25, 2020. For additional data, insights and available listings, please connect with the [CBRE Student Housing Team](#).

[LISTEN TO THE RECORDING](#)

## OPENING COMMENTS

*Brian McAuliffe, President, CBRE Capital Markets, Multifamily*

The Capital Markets environment for Multifamily is significantly more favorable today than 60 days ago, especially for Student Housing. Although there continues to be uncertainty in Student Housing, primarily related to university and college opening dates, the recent data, which will be covered by our speakers, is pointing to significantly more positive trends. We expect accelerated investor interest in the Student Housing sector and investment sales and debt transaction activity will eventually start to increase.

## ECONOMIC & CAPITAL MARKETS CONDITIONS

*Spencer Levy, Chairman of Americas Research & Senior Economic Advisor, CBRE Research*

### Optimism on the Economy

CBRE has forecast a consistent “V” shaped economic recovery, which has been bolstered by our macro view and “facts on the ground” from China. Not all is perfect, as evidenced by the recent flare up in Beijing, but China is open, and the economy is growing. The downside risk is significant (40%), but the NASDAQ hit an all-time high last week, and as the stock market is the number one indicator of both consumer and business confidence, CBRE stands by our optimistic call.

### Capital Markets

The U.S. capital markets lack price discovery, as the level of deal flow is down almost two thirds from the pre-COVID-19 peak. Most of the deals that are being done are in the industrial and multifamily sectors, with almost none in hotels and retail and a handful in office.

There is strong liquidity in multifamily and industrial (all but spec), but liquidity outside of those sectors, including office, continues to be constrained. The key unanswered question is “values,” and this cannot be answered until we know “the bottom” on rent collections.

### Commercial Real Estate Forecast

CBRE forecasts that multifamily is one of the asset types – along with industrial – likely to come out of this economic distress the fastest, with office recovering on a slower pace and retail and hotels taking the longest time to fully regain pre-COVID-19 numbers. The biggest risk factors to recovery are housing affordability, taxes, a possible second-wave of regional and local economy shutdowns and industry types. The U.S. presidential election should create only minimal impact on the commercial real estate industry overall.

The other impact to watch is the next federal government stimulus package. If another stimulus is not passed by September, it is unlikely to happen until post-election, in the absence of a major stock market collapse or other huge negative surprise, such as another spike in unemployment.

### Summary

No market or asset type is immune to this crisis, but the U.S. is and will be resilient as a haven for international capital and we are optimistic that by 4Q 2020 we will begin to see an upturn in transaction activity.

## CURRENT OPERATING FUNDAMENTALS

*Jeanette Rice, Head of Multifamily Research, CBRE Research*

Although COVID-19 definitely has impacted higher education, the student housing market is holding up much better than expected, as is evidenced by three important market fundamentals.

- **Occupancies in the Spring.** Most universities transitioned to online learning mid- to late-March. A survey of student housing management companies revealed physical occupancies onsite ranged between 40-60% in March and April, with some investors seeing an uptick in winter/spring term leasing due to residents being displaced from their on-campus housing.
- **Rent Collections.** A CBRE survey found that rent collections for June (as of June 20) averaged 93.2% across 460,000 tracked beds. This was slightly higher than conventional multifamily rent collections, reported at 92.2% through June 20.
- **Pre-leasing for Fall Semester.** After an initial slowdown, leasing momentum is gaining pace as most universities report they will open to on-campus classes. Based on the 600,000 beds CBRE surveyed in late June, leasing velocity is now only 2.3 percentage points behind last year.

## STUDENT HOUSING MARKET OVERVIEW

*Jaclyn Fitts, Executive Vice President, CBRE Capital Markets, Student Housing*

### Distressed Debt

Delinquency is highly concentrated in a select group of owners and does not indicate market wide concerns. Based on the data collected, five ownership groups account for 59% of student housing loans that are 90+ days delinquent, in foreclosure or REO status. Five separate ownership groups also account for 72% of student housing loans less than 90 days delinquent. With the strong collections seen in the sector in late spring, CBRE does not believe COVID-19 is a driver for any distress in the sector, and select owners are taking advantage of the potential to renegotiate their loans in oversupplied markets.

### University Plans for 2020-2021 Academic Year

The financial incentive for universities to operate in-person has been well-documented. Eighty percent (80%) of universities have announced either in-person classes or the hybrid model with some on-campus instruction. The 77 universities that have indicated they will move online for fall 2020 represent only 21,411 of the 1,240,493 beds (1.7%) that Axiometrics Advisors tracks as purpose-built, off-campus student housing, and 61 of these universities are located in California.

### Demand for Off-campus Student Housing Properties

- **International Enrollment.** According the Institute of International Education survey, 92% of international students have remained in the United States. There are approximately 1.1 million international students, meaning over 1 million of these students continued to take their classes – even though online based – in the U.S. rather than returning to their home country. Additionally, approximately 280,000 of the 350,000 Americans studying abroad during the spring semester returned home, limiting the potential decline in international enrollment for fall 2020.

- **Freshman Enrollment and Retention Expected to Decline.** According to a survey conducted by Simpson Scarborough, approximately 10% of prospective high school graduating seniors stated that they no longer plan to attend college in the fall. The same survey reported that, when given the option to continue their education online or return to campus for in-person instruction, 85% of current college students said they would return to campus.
- **De-Densification.** An April 27th survey from the Association of College and University Housing Officers demonstrated that 70% planned for or are considering de-densification, or reducing bed counts for housing on campus. According to a recent Student Housing Business survey, 79% of on-campus housing officers indicated that their institutions were planning on keeping an existing on-campus housing facility offline for a potential quarantine space during the 2020-2021 academic year. CBRE believes de-densification of on-campus housing will help to offset any potential enrollment declines and allow the off-campus student housing market to remain highly occupied.
- **Impact of Unemployment.** As unemployment increases, so does enrollment growth at public institutions. This is commonly attributed to two factors: as people with lower education levels face a higher degree of unemployment, especially in recession times, they seek post-secondary education for the stabilized career path and lower unemployment levels it provides. Secondly, college graduates frequently seek higher graduate education in the face of high unemployment levels. Given the U.S. is currently facing record unemployment levels, especially among the population with lower levels of education, we anticipate this will propel college enrollment.

## Transaction Market and Capital Availability

- 2020 started strong for the student housing industry, with Q1 seeing \$1.7 billion in transactions, despite COVID-19 impacts swelling in March. This was 13.3% higher than Q1 2019.
- The transaction market has been virtually at a standstill outside of a handful of assets that had hard earned money pre-COVID-19.
- While the number of universities expecting in-person classes is very high, the “heads on beds” proof will drive investor interest and demonstrate the recessionary qualities of student housing.

## Summary

CBRE believes that the student housing transaction market will come back strongly this fall and that pre-COVID-19 pricing will remain intact. In about 60 days, today’s trends of university openings and positive leasing momentum will result in a student housing sector armed with strong fundamentals in a historically low interest rate environment, providing attractive opportunities for the investment community long before many other product types recover in the wake of COVID-19.

## DEBT & STRUCTURED FINANCE MARKETS

*Ben Roelke, Executive Vice President, CBRE Capital Markets, Debt & Structured Finance*

Prior to COVID-19, debt providers had already put student housing under a microscope; however, lenders were aggressively competing for quality, well-located deals in strong markets when backed by proven student housing owners. Since the outbreak of COVID-19, the lending market has largely been in a “wait and see” mode until getting more information regarding both property performance and school openings. Now that the market has been provided with more clarity on that information, lenders are beginning to quote new financing opportunities. Right now, the agencies are focused on providing financing for student housing acquisitions and will begin looking at refinances again for fall closings

once those rent rolls are finalized and schools start back up. Interest rates are very attractive, with rates for student housing typically ranging from 3% to 3.5%, depending on leverage and term.

Life companies in general are quoting new business but being very selective on asset types, with a mixed response to recent student housing financings we have marketed to them. We received some competitive terms, around 65% LTV. Others are taking a more conservative approach to underwriting and generally quoting in the 50-60% LTV range and some are still on pause for student housing. Banks had a similarly mixed response for financing stabilized student housing assets, providing a mix of quoted terms, while some still remain on the sidelines for any new business.