Tier 1 Student Housing May Do OK During Recession, But Smaller Markets Could Miss Out

April 13, 2020 | Dean Boerner, Bisnow San Francisco Bay Area

Despite a slowing economy and uncertain future, rent collection and leasing volume are roughly on track for some large student housing owners, who also anticipate revenue growth during an impending recession.

But some worry the sector's reputation as recession-resilient may not pan out for owners in smaller markets, who could miss out on enrollment gains.

Investors with portfolio concentrations around what are considered Tier 1 universities, or those with about 20,000 or more students, are seeing collections come in around 90%.

Texla Housing Partners and Harrison Street, which both focus on such markets, are each seeing rent collections of over 90%, according to the companies.

Landmark Properties, an Athens, Georgia-based developer and manager of a 38,000-bed portfolio, saw a 93.1% collection rate as of last week, or 3% or 4% below what it sees normally, and pre-leasing activity around par with previous years, CEO Wes Rogers said.

Rogers said he expects Tier 1 schools to perform extremely well, partly because they are starting to increase acceptance rates in case they see less enrollment from international students.

On the other hand, new student housing deals are harder to come by, at least in the short-term, according to those in the space.

“Everyone I'm talking to is pencils-down, on pause, and just waiting," Texla Housing Partners principal and CEO Roger Phillips said. "There's just no way to really forecast.”

Cap rates had been bid up — perhaps artificially by well-heeled foreign investors — to almost parity with multifamily properties by last year, which pushed normally active investors in the space, like MJW Investments, to slow down.

With questions about whether May will bring worse revenues than April, and what kind of school attendance there will be beyond that, “it’s hard to price things right now,” MJW Investments founder and President Mark Weinstein said.

“It will hold true in the long run that student housing is recession-resistant, but it’s going to be a little more muted right now, because we don’t know exactly how it’s going to play out,” he said. “I think the real fear is if May is going to be worse.”

Newmark Knight Frank Capital Markets Vice Chairman Ryan Lang, who leads student housing for NKF, said a good amount of opportunistic private capital has begun seeking acquisitions, but that “80%-plus” of institutional capital is on the sidelines for the time being.

“Until it's announced schools are opening up in August, debt financing has been relatively challenging,” Lang said. “Fannie and Freddie are still quoting deals, albeit a little bit more conservatively, and you still have low-leverage life companies and debt funds that are actively placing capital in the sector, just not as aggressively as we’ve seen over the past several years.”

Rogers said many potential sellers are waiting things out as well.

“Two weeks ago, we closed a big refinancing and recapitalization of a portfolio at right around a high four-cap," he said. "But if you were going to price something today, there’s probably going to be a bid-ask spread, because the debt is not going to be quite as good as it was."

“People that don’t have to sell aren’t really selling assets. Out of all the peers I’ve spoken to, nobody is going to really put anything on the market."

Texla's Phillips, who said his company is within 5% of the rent it would normally collect, worries about most of student housing given the possibility attendance drops in the fall. But secondary and tertiary markets — at least those outside of California, Florida and Texas — will likely fare worse than average, he said.

“Even if we come out of this in August, I could see fallout in the not-too-distant future in those markets,” he said. “Those were already volatile.”

Investors like Phillips and Rogers say Tier 1 markets will see support from state governments and continued increased enrollment, especially during a recession. But developers around other schools could struggle with less funding and an acceptance by some of their target student demographics of online learning.

A move by Tier 1 schools to adjust to uncertainty by increasing their acceptance rates could lead to Tier 2 and Tier 3 schools struggling, Phillips and others said.

"It's probably going to take away from Tier 2 and 3 universities," Landmark's Rogers said. "We also think you'll see issues at smaller, more expensive liberal arts schools. [The coronavirus] is going to cause a recession, and we feel like the smaller liberal arts schools tend to not offer as compelling of a value proposition."

Both Texla and Landmark saw over half of residents stay in their housing even after universities shut down their campuses, a behavior Phillips said probably shows Tier 1 market students' eagerness to return to campus. Based on that, he guesses that even if classes stayed online through the fall, Texla could still see enough occupancy to make debt service on properties.

Despite the uncertainty, most student housing owners *Bisnow* spoke with are confident that campuses will reopen by the fall. Pierce Education Properties President and CEO Fred Pierce noted in an email a prediction made last week by Dr. Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases, that such a timeline would be the case.

Many, including Harrison Street Chairman and CEO Christopher Merrill, predict that the pandemic and recession will have little effect on many students' desire for a physical college experience.

"There are some things that will change, but I don't see the enrollment at the schools we focus on really being impacted that greatly," Merrill said.

"I've got a daughter in college. And the minute the college opens up — she's not going to walk — she's going to run back to school."

See Also: HBCU Presidents Face Unique Burdens In Bringing Students Back To Campus

Related Topics: student housing , Newmark Grubb Knight Frank , Harrison Street , Roger Phillips , Landmark Properties , Wes Rogers , MJW Investments , Mark Weinstein , Pierce Education Properties , Christopher Merrill , Fred

Pierce , Ryan Lang