COMMERCIAL OBSERVER

Student Housing Test: Q&A with Pierce Education Properties

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Fred Pierce, CEO of Pierce Education Properties. FRED PIERCE COURTESY OF FRED PIERCE, CEO OF PIERCE EDUCATION PROPERTIES

Like almost every other sector, the coronavirus pandemic has sent the student housing market into a world of uncertainty as more major universities announced this week that they will move courses online for the fall semester.

But Fred Pierce, CEO of Pierce Education Properties, said they are up to the test with more than 23,000 student housing beds in 23 cities and 24 Division I public universities. He cited the survey by *The Chronicle of Higher Education* regarding reopening plans for next semester, which shows about 84 percent of schools are still planning to open at least some portion of their classes to be either in-person courses or a hybrid mixture of online and in-person courses. Conversely, only 11 percent of colleges are strictly "planning for online," and four percent have yet to make their determination, which Pierce expects to adopt hybrid plans.

“Of course, some high-profile universities like Harvard University, University of Southern California and UC Berkeley have recently announced plans to be entirely online, but do note these are in highly populated metropolitan areas and two are in California, which is an anomaly,” Pierce said via email. “The headlines from those decisions are clouding the fact that the super majority of universities will be holding at least a portion of their courses in person.”

Pierce answered Commercial Observer’s questions via email about how the market is faring, and how fears might be overblown.

Commercial Observer: How has the pandemic — along with all the recent announcements that major universities and colleges will be online for the fall semester — impacted the overall student housing outlook?

Fred Pierce: Pre-leasing velocity in June was up some 72 percent over May in our portfolio. We are expecting this robust volume of pre-leasing to continue in July and August – and even carry into September. The decision of some students to delay their 2020-21 leasing decision during the pandemic is simply pushing the velocity more into the summer than in past years.

In addition, we are seeing the typical university implementing plans to “de-densify” their on-campus housing. The two most common ways of reducing the number of students living on-campus in 2020-21 is by closing dormitories that have gang bathroom facilities and/or reducing the number of students living in the same room (e.g. returning to single-occupancy rooms as opposed to doubles and triples). The result is that most universities will be reducing their effective housing capacity on campus by 20 to 50 percent. The super-majority of those students will all be moving into off-campus student housing.

How is it impacting things in terms of rents, occupancy and general operations?

In most markets, rents are actually increasing as the off-campus demand – driven by de-densification of housing on-campus – is going to be higher for AY 2020-21. For tier 1 universities (Power Five Football Conference participants), total enrollment is projected to be equal to or higher than 2019-20. Thus far, pre-leasing for 2020-21 is behind last year by between 7 to 10 percent. That generally reflects some students deferring their leasing decision given the uncertainty related to the pandemic. Our portfolio saw June velocity increase 72 percent over May. We expect that trend to continue with robust summer leasing leading to an expected higher occupancy in 2020-21 than last year.

Operationally, most all student housing companies took immediate actions in the spring based upon CDC and health official guidance. This included closing leasing/management offices to residents, closing property amenities … as appropriate. Generally speaking, offices and amenities have now reopened – with social distancing protocols including online registration for use of amenities. Of course, all properties continue to follow directives of CDC, elected officials and health officials.

Do you anticipate slower lease-up and lower starting rents for new projects?

The leasing rate for new deliveries seem to be following the slightly slower pre-leasing pace of the market. We have not seen any reduction of rents.

How much do you expect student housing investment to change over the next 12 months?

Since the escalation of the pandemic, there have been very few commercial real estate sales transactions across most land uses including student housing. The debt markets have tightened significantly, with it being very difficult to secure debt until schools reopen in the fall and residents have moved into their on and off-campus residences and paid their rent.

In addition, debt terms when being quoted include lower loan-to-value (65-percent max) and additional reserves including often 12 months principal and interest, capital expenditure, taxes and insurance.

We expect a return to pre-COVID-19 market conditions, including cap rates, once colleges are back in session. The students are largely expected to be back at campus in the fall (irrespective as to whether courses will be held in-person or delivered in a hybrid structure), and student housing will be full. The debt markets will likely loosen up and additional reserve requirements will likely be reduced or eliminated. A robust volume of sales in the typically busy fourth quarter is expected to be higher than normal.

Given we are in a recession and student housing's performance during the pandemic has further demonstrated its recession-resistant characteristics, more institutional capital will be allocated to student housing to gain those recession-resistant attributes.

How has the pandemic and the recent announcements by major universities changed your strategy moving forward?

Although since rescinded, I had predicted the announcement by ICE regarding the revocation of student visas for international students whose courses are completely online would have had very little impact. That is because very few universities will be entirely online, as the *Chronicle of Higher Education's* daily survey of university reopening intentions indicates that only 11 percent of universities plan to be substantially or entirely online.

Given the recent spike in positive COVID-19 tests, about 17 percent of universities have modified prior intentions from holding classes substantially in-person and shifted to planning for hybrid delivery. I expect this shift to continue leading up to the start of classes, but nevertheless students will want and need to be a school.

Our investment strategy remains the same. We target public universities with 20,000 undergraduate students or 25,000 total students who are members of the Power Five Football Conferences or members of the "Group-of-Five" Football Conferences when located in major metro areas.

Is there a chance that all this will change "college life" forever? Or at least the next two to three years? Is that too dramatic? Why or why not?

Until a vaccine is developed, university operations will proceed in a socially-distanced manner. This will move large lecture courses to online, stagger in-person and online delivery to reduce class sizes, de-densify residence halls by closing certain dormitories (gang bathroom-type) and reducing double and triple occupancy rooms, altering food service delivery, etc.

That being said, college life is certainly not going to be changed forever. In fact, students' desire for a residential campus experience will be redoubled, as most of those who moved home in the spring realize how much they want to be at school. Also, surveys have revealed that two-thirds of students find online courses inferior to classroom instruction.

Online learning will not replace in-classroom instruction, but rather expand access to higher education for non-residential learners. The number of students living on campus will be reduced for the next several years, pushing that demand off-campus.

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