

Back to school

Student housing — an institutional asset class

by Frederick Pierce

Nearly two decades after its inception, the student housing asset class has emerged as a preferred niche sector for institutional real estate investment. As cap rates have compressed, and yields have lowered accordingly, in the traditional four main “food groups” of commercial real estate — multifamily, retail, office and industrial — savvy institutional investors have begun looking to alternative asset classes for better yield and diversification benefits. That is fueling growing institutional appetite for asset classes such as student housing, senior housing, self-storage, medical office, data centers and healthcare real estate.

An indicator of the growing interest in the student housing space comes from the Pension Real Estate Association’s annual Investment Intentions Survey, where “Other” real estate sectors (including student housing) garnered 14 percent to 18 percent of expected equity investment allocations in 2015, causing PREA to single out student housing and healthcare as independent real estate sectors beginning in 2016. More than 40 percent of domestic institutional investors reported intent to deploy capital in student housing in 2017, when it was listed as its own category. In addition, student housing has become a targeted asset class for large international investors. Given this increasing appetite, it should be no surprise student housing investment sales reached all-time highs in 2015 (\$6 billion) and 2016 (more than \$10 billion); 2017 looks to be on pace with 2015’s volume.

Pension funds, life insurance companies and sovereign wealth funds have found student housing’s high current income, higher cap rates, recession resistance and low correlation to other property types to be attractive characteristics for their real estate portfolios. Prominent domestic institutional investors with allocations to the student housing space include the California State Teachers’ Retirement System, Florida State Board of Administration, Arizona State Retirement System, Harvard Management Co., TH Real Estate (formerly TIAA-CREF), AIG, Liberty Mutual Insurance and Principal Financial Group. Foreign institutional investors also are big players in U.S. student housing, including ven-

tures and vehicles from Canada Pension Plan Investment Board, Singapore’s GIC, Abu Dhabi Investment Authority, Mapletree Investments, Safanad and Investcorp. High-net-worth investment vehicles also are investing in the industry, including Kayne Anderson Capital Advisors and Saban Capital Group.

Many larger institutions are only interested in investing in niche sectors of commercial real estate if they can place meaningful allocations (i.e., hundreds of millions) of equity capital in the sector, and look

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for qualified operators with institutional résumés and demonstrated investment performance. Generally, this is accomplished through joint ventures/separate accounts with private operators, or commingled funds through private equity firms. Harrison Street Real Estate Capital is the leading private equity firm in the space and has been an institutional vehicle for investment — largely in student housing, self-storage and medical office — through its series of core and opportunistic commingled funds. Last year, Harrison Street took NYSE-traded Campus Crest Communities private in a multibillion-dollar acquisition. Blue Vista Capital Management is also a significant private equity firm with funds dedicated to student housing. Publicly traded student-housing REITs American Campus Communities and Education Realty Trust have brought critical investment success and transparency to the sector, although as publicly traded stocks, they generally are not vehicles for private institutional real estate investment.

In terms of ownership volume, the student housing industry is dominated by private student-housing companies (private student-housing firms

and developers), which enjoy a 58 percent market share, compared with REITs at 29 percent and private equity firms (with direct ownership) at less than 10 percent. National private student-housing operating companies include The Scion Group, Pierce Education Properties, The Preiss Co., Vesper Holdings, Campus Advantage and Horizon Realty Advisors.

One of the constraining factors in niche sectors of commercial real estate is the finite number of companies with institutional qualifications. This has driven a consolidation of ownership in the student housing industry, with the leading national companies growing significantly in this decade. The top 25 owners in the sector dominate student housing ownership, with their annual market share of the AXIO 175 markets ranging from 59 percent to 69 percent and averaging 65 percent in recent years (see table, below). This shows, as more than 261,000 new beds were delivered to the national marketplace since 2010, the majority of that additional supply has either been held by or sold to the top 25 owners. The “aggregate beds owned” by the top 25 has increased 75 percent since 2010, from 276,412 to 482,684 beds today. The relative market share also affirms the top 25 remain the major players in the acquisition of existing student-housing assets.

The student housing industry remains ripe for further consolidation of student housing ownership. The continued success of public REITs American Campus Communities and Education Realty Trust affords them ready access to capital for continued

growth through new development and tactical acquisitions to maintain significant market share. At the same time, strong growth, investment success and growing human-resource capacity among the leading private student-housing companies is attracting larger equity investment allocations from pension funds and other domestic and international institutional investors, where allocations to niche real estate asset classes are growing but currently only scratching the surface of total potential.

The future will bring additional core capital into the student housing space, which will serve to further stabilize the student housing investment market and bring justified cap-rate compression to non-pedestrian assets — pedestrian assets already have compressed following the pattern of conventional multifamily properties. Even though several of the industry’s larger private companies explored IPOs without success in recent years, one or two more IPOs are likely to occur in coming years. The most notable change from an equity capital perspective, however, will be an increasing trend of student housing being earmarked for a dedicated portion of the multifamily allocation made by pension funds, endowments and foundations, with student housing likely to receive an asset allocation in the range of 10 percent to 15 percent of a typical pension fund’s real estate allocation in coming years. ❖

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Top 25 student-housing owners						
Type of company	2010			2016		
	No. of firms	No. of beds	% of total beds	No. of firms	No. of beds	% of total beds
Private student-housing operator	13	123,079	44.5%	13	213,525	44.2%
REIT	3	103,011	37.3%	2	140,706	29.2%
Developer	6	36,261	13.1%	7	65,182	13.5%
Private equity firm (direct)	0	—	0.0%	1	46,057	9.5%
MFR investment manager	3	14,061	5.1%	2	17,214	3.6%
Total	25	276,412	100.0%	25	482,684	100.0%

Source: Student Housing Business Magazine

Top 25 student housing—owner key benchmarks, 2010–2016							
Category	2010	2011	2012	2013	2014	2015	2016
Total beds owned by top 25	276,412	294,708	321,947	373,877	395,207	383,647	482,684
Total beds — AXIO 175 markets	433,610	458,606	496,835	552,342	604,492	647,753	695,498
Top 25 owner % of AXIO 175	64%	64%	65%	68%	65%	59%	69%
Bed growth (%) of top 25 owners	—	6.6%	9.2%	16.2%	5.7%	–2.9%	25.8%
Top 25 owners, minimum beds to qualify	2,766	4,000	4,220	5,604	5,060	4,160	5,300
Average beds owned by top 25	11,056	11,788	12,878	14,955	15,808	15,346	19,307

Note: AXIO 175 data reflects the 175 national student-housing markets surveyed by research firm Axiometrics.

Sources: Axiometrics, Student Housing Business Magazine

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