

**Will it pass the test: in a difficult economic climate, the student-housing niche tests its "recession-resistant" status.**

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With all of the futons and mini-fridges moved in and the first month of classes complete, student housing providers are beginning to examine their 2009-2010 leasing performance, and they're finding mixed results, with financial constraints in some families causing students to reconsider leaving home or reevaluate their choice of school and budget cuts reducing public school enrollment in some states.

Some universities that were able to fill dormitory spaces last year are not filling them this year, says Craig Cardwell, President of Allen & O'Hara Education Services, a subsidiary of the publicly traded Education Realty Trust that operates in 55 markets, generally at public universities. In other schools, there was plenty of overflow, he says, adding the caveat that most universities don't calculate final enrollment until early October.

"Where enrollment is up, university officials are quietly gleeful," Cardwell says. "Where it's down, they're not quite sure why yet. Is it families running out of money?" In terms of overall performance, Cardwell says, "Our leasing is on track and comparable to where it was last year."

He predicts that while overall enrollment might be up slightly, more students may be living at home where feasible. And in all markets, "more students are looking for value instead of the highest price and best amenities," Cardwell says. "They still want it to be good, they just don't want to pay as much."

Budget cuts in some states are beginning to have an impact on enrollment, and the cuts could have an even larger effect in coming years. The California State University system, for instance, will be cutting enrollment by 40,000 students in the next two years, Cardwell says. "You can't take 40,000 students out of a system and have it not affect housing," he says.

Mike Peter, President and CEO of Campus Advantage, a student housing provider with communities across the country, states that the economy is having an impact on students' choice of schools, as well. "A number of students that in the past would have gone to a higher-ranked school out of state are choosing to stay in state and save \$10,000 to \$15,000 for their moms and dads," he says.

Campus Advantage offers an enrollment guarantee at some communities, primarily at communities targeting freshmen, in which students can cancel their leases if they verify they've enrolled at another school. "We have had more students than at any time in the past come to us with verification that they have enrolled elsewhere," Peter says. Whereas two or three students per property would take advantage of the offer in a normal season, the company has seen 50

students or more use it at some communities due to freshmen choosing to stay in state rather than pay out-of-state rates at what was their "first choice" school.

Overall leasing at Campus Advantage is 0.3 percent ahead of last year, Peter adds, though he notes some communities have performed dramatically better.

### Expect a Late Leasing Season

In some markets, economic uncertainty forced student housing providers to be more aggressive with pricing and concessions. Art Lieb, Portfolio Manager at Julian LeCraw & Co., where student housing makes up about 10 percent of the company's 12,000 apartment portfolio, says one of the company's student properties for North Carolina State University in Raleigh, N.C., finished 4 percent behind last year in occupancy--a drop that also affected other providers in the city. Leasing at the community improved somewhat in the summer, once parents were comfortable with their jobs and after the economic downturn began to slow.

Campus Apartments, a student housing provider with more than 24,000 beds in 17 states, also experienced a late leasing season, says Miles Orth, Executive Vice President and Chief Operating Officer. "We anticipated a late lease-up, with many students looking for deals and making their housing decisions later in the season, and that ended up occurring," he says.

Despite the delays, Campus Apartments finished the leasing season on par with last year. Overall occupancy was 96 percent (98 percent when two underperformers are excluded) and year-over-year rents were up 2.5 percent to 3 percent. National numbers don't tell the whole story, he adds. Markets with schools that have steady enrollment, such as the University of Pennsylvania in Philadelphia, achieved solid rent growth and occupancy, he says.

In markets such as Orlando, Tucson and Tampa, on the other hand, students were looking for concessions late in the year, Orth says. Some students and parents were waiting to sign a lease to ensure they remained in good academic standing, he adds. In addition, leasing agents who wait until the end of the year to offer incentives, instead of offering a tiered structure that provides incentives earlier in the year, are training students to hold out until the end for leasing specials, he says.

### Recession Buster

In June, units reported that the 2009-2010 leasing season would be a proving time for the industry. Historically, student enrollment at universities has increased during recessions as young workers decide to enroll when jobs become scarce to enhance their credentials. But state budget constraints have caused some schools to reduce enrollment, and tight credit markets have made it more difficult to obtain student loans or for families to tap their home equity. If the student housing industry can thrive this year, it will solidify its recession-resistant reputation.

"This is the first real test to see, but it appears to be the case that student housing is recession-resistant," says Allen & O'Hara's Cardwell. Student housing is less affected than conventional housing by metrics such as housing starts and unemployment, he says.

Campus Advantage's Peter says that companies with sound operating standards and management approaches probably saw little drop in performance this year. He says that while student-housing cap rates may have risen somewhat recently because of higher returns in other investment alternatives, the student housing segment's overall solid performance should prevent any further erosion. However, certain markets, such as Gainesville, Fla.; Tallahassee, Fla.; Madison, Wis.; and Austin, Texas; may not fare as well due to an oversupply of housing.

[ILLUSTRATION OMITTED]

Orth says changes in student housing cap rates will likely be very local and market specific, but that there will be values available over the next several months. "There are a lot of developers with short-term, interest-only debt, and owners will have problems meeting their debt service," he says. "That's a buying opportunity."

### Community Colleges Take Bite

One trend with unpredictable results is the continuing growth of community colleges and two-year degree programs. Enrollment in such programs is surging and will continue surging, says David Baime, Vice President of Government Relations for the American Association of Community Colleges. "Many places expect double-digit increases," he says.

"It's primarily driven by the economy." A significant percentage of those students are taking advantage of programs that grant them automatic admission to a four-year state school upon completion of their studies, Orth says. Some of those students will live away from home, justifying the additional housing cost with the lower cost of tuition at a community college.

"So the growth of community colleges isn't necessarily hurting us, just changing the type of student we see," he says.

Cardwell cautions that not as many of those students transfer to four-year schools as purport to. Nevertheless, he expects little impact from community colleges' growth on student housing because much of the growing enrollment comes from students who are unable to find jobs in the current market. "Those folks may have lived at home anyway, so they wouldn't be part of student housing," he says.

Students' perception of community colleges is changing dramatically, however, Peter says, and more community colleges are adding a housing component to the student experience. Campus Advantage even has a number of communities that serve community colleges. "So while we've lost a few at four-year schools, we've gained a few at community colleges," he says.

### Top 10 College Towns

The 2009-2010 College Destinations Index, released in mid-September by the **American Institute for Economic Research**, identified the 75 best places in America for college study, based on evaluations of academic environment, quality of life and professional opportunities.

Following are the top 10 major metropolitan areas (populations greater than 2.5 million) for college students, according to the study:

1. New York City
2. San Francisco
3. Boston
4. Washington, D.C.
5. Seattle
6. Los Angeles
7. Baltimore
8. San Diego
9. Minneapolis-St. Paul
10. Miami

#### American Campus Communities Announces \$125 Million Revolving Credit Facility Closing

American Campus Communities on Sept. 3 announced the closing of a \$125 million secured revolving credit facility with PNC ARCS LLC, on behalf of [Freddie Mac](#). Initially secured by eight properties, the credit facility has a five-year term. Proceeds will go towards working capital needs and to fund future acquisitions and property development. [American Campus Communities Inc.](#) ranks as one of the biggest owners, managers and developers of high-quality student housing properties in the country. In total, the REIT owns 86 such communities containing approximately 52,800 beds. In addition, it holds a minority stake in 21 joint venture properties containing more than 12,000 beds.

Source: American Campus Communities via Business Wire

#### New Jersey Town Targets Off-Campus Antics

A recently adopted South Orange, N.J., Ordinance designed to curb drunken behavior in and around off-campus housing at Seton Hall University could landlords to evict unruly residents.

The ordinance, which proponents say could become a model "Animal House" law in university communities nationwide, stipulates that landlords must move to evict tenants if those tenants, or their guests, are convicted of two so-called quality-of-life violations in a 12-month period.

"We're going to cooperate in their efforts to evict. All we want landlords to do is to work with us," the village's attorney, Steven Rother, says. "They're not going to go down there alone to fight the battle."

Landlords who fail to comply with the ordinance could face substantial fines and revocation of their license to rent.

Source: Richard Khavkine, "The Star-Ledger and NAA's Industry Insider  
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