

Commercial Real Estate Finds a Rare Bright Spot by Campuses

Rents for student housing are poised to grow, with strong demand at many colleges

By Maggie Eastland [Follow](#)

July 4, 2023 5:30 am ET

Many office buildings sit mostly empty. Once-soaring apartment-rent growth has slowed and is falling in some places. But housing geared to college students at popular schools is a rare bright spot in the beleaguered commercial real-estate business.

Rents for student housing are poised to grow, boosted by limited supply and strong demand at many colleges, especially top research universities and schools in the five highest-earning athletic conferences for U.S. college football. However, with college enrollment declining overall, student housing is facing higher risks at smaller colleges with less name recognition and falling enrollment.

Despite the rise in mortgage rates last year, sales of student housing property reached a record high of \$22.9 billion in 2022, according to data from commercial real-estate firm CBRE Group.

Multifamily rents show signs of cooling from last year's double-digit increases. They increased 2.3% during the 12 months ended in May 2023, according to RealPage, an online firm that tracks the apartment market. Meanwhile, student-housing rent is growing at about 9%, RealPage said.



Packed campuses at some colleges and rising rents fueled last year's record sales for student housing. PHOTO: SCOTT WACHTER/REUTERS

Real-estate investment giant Blackstone made the biggest bet on student housing last year, with a \$12.8 billion acquisition of American Campus Communities.

"This is a sector that we think has stood the test of time and is going to be a continued bright spot in the future," said Jacob Werner, co-head of Americas acquisitions for Blackstone real estate.

Demand for student housing isn't typically stifled by economic downturns. "It's an all-weather asset class. In good times, people go to school," Werner said. "In bad times, more people tend to go to school."

Higher interest rates also mean that fewer developers will be able to finance new construction, limiting new supply, analysts said. Other restrictions on supply, such as a dearth of sites, at some schools will also likely enable many landlords to keep raising rents.

The pandemic provided a unique test of student housing's ability to withstand tough markets. Analysts braced for a hit in 2020, but occupancy remained stable even during the peak of online classes. Students wanted to move out of their parents' houses and live near their college campuses even though they were attending classes virtually.

Uncertainty about the return-to-campus kept rents down until the second half of 2021, but they began increasing in 2022. Packed campuses and rising rents fueled last year's record sales.

Sales of student-housing properties this year will likely not match 2022 levels, because last year's volume was partly the result of pent-up demand.

Like other commercial property types, student-housing values have fallen because of higher borrowing costs. But the decline hasn't been as great as other property types because rent growth and occupancy remain strong, said Jaclyn Fitts, national student-housing co-leader for CBRE.

"It's performing differently than other asset classes in the market right now," Fitts said.



Investors are optimistic that overall student housing is 70% preleased for this fall, about the same as in May 2019. PHOTO: TAKE FLYT IMAGING

Not all the news in the student-housing business is good. Student-housing developments near smaller or lesser-known institutions are suffering from weak demand due to declining enrollment.

Although college enrollment declined 1.1% last academic year, it increased for universities in the highest-earning athletic conferences and those with well-regarded research programs.

"What we're seeing in the enrollment story is almost this tale of two markets," said Elsa Wilson, senior research analyst at JLL, a real-estate investment firm.

Thad Wilson, a restructuring attorney at King & Spalding, said he has seen an increase in student-housing investments facing financial distress, especially for older, poorly maintained properties.

"There are definitely a number of distressed student housing developers and projects that are out there," Wilson said.

Still, investors are optimistic that overall student housing is 70% preleased for this fall, about the same as in May 2019,

according to data from JLL. Research universities and schools in top-earning athletic conferences have preleasing rates higher than in 2019, JLL said.

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Appeared in the July 5, 2023, print edition as 'Landlords Find Shelter On Campus'.