

RESEARCH

MARCH 7, 2022

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Q4 2021: Student Housing Quarterly View

Steady performance following a strong Fall 2021

The Student Housing sector rebounded strongly in the Fall of 2021 in terms of vacancy declines and rent growth. Following that performance, the Fall of 2022 is expected to pull back as a wave of backlogged properties get completed and enter the market. While the fundamentals of the student housing markets appear healthy, recent news points to a reduction in enrollment, which could affect the student housing sector if the trend continues.

A recent article on NPR¹ shows that enrollment data continues to decline leading into the Fall 2021 school year. From 2015 to 2019, enrollment for undergraduate students has been falling an average of 1.8% per year, then in 2020, it saw a major decline of 3.6%. Going into Fall 2021, people were hoping to see an increase in enrolment figures, expecting students who took a year off in 2020 to return in 2021. However, data from the National Student Clearinghouse Research Center, which is cited in the NPR article, shows that enrollment for undergraduate students fell 3.1% in Fall 2021. A theory discussed in the article explaining the continued decline in enrollment is due to a difficult choice that potential students have to make between short-term gains and potential long-term gains, where it is believed that many of the students who would have enrolled in 2020 ended up finding employment in the labor market where unemployment is down, and wages are up for workers in low-skilled jobs. The difficult decision these potential students would make is a reduction in work hours leading to a reduction in pay for the potential of an increase in wage after graduating.

Though enrollment fell in Fall 2021, it does not appear to have negatively affected the student housing market. One factor could be, as the NPR article shows, is that the majority of the decline in enrollment is observed in community colleges, where associate degree-seeking enrollment declined 6.2% in Fall 2021. Community colleges are typically outside of the primary large-scale student housing markets. However, enrollment should be kept in mind if it continues in four-year colleges and universities where the student housing sector is predominant.

Looking at the national level, the student housing sector shows a steady performance for the Fall 2022 school year. The sector is expected to see vacancies increase 10 basis points for properties that rent by the bed and an increase of 30 basis points for properties that rent by the unit. While asking rents are expected to grow by 2.4% for properties that rent by the bed and grow 2.9% for properties that rent by the unit.

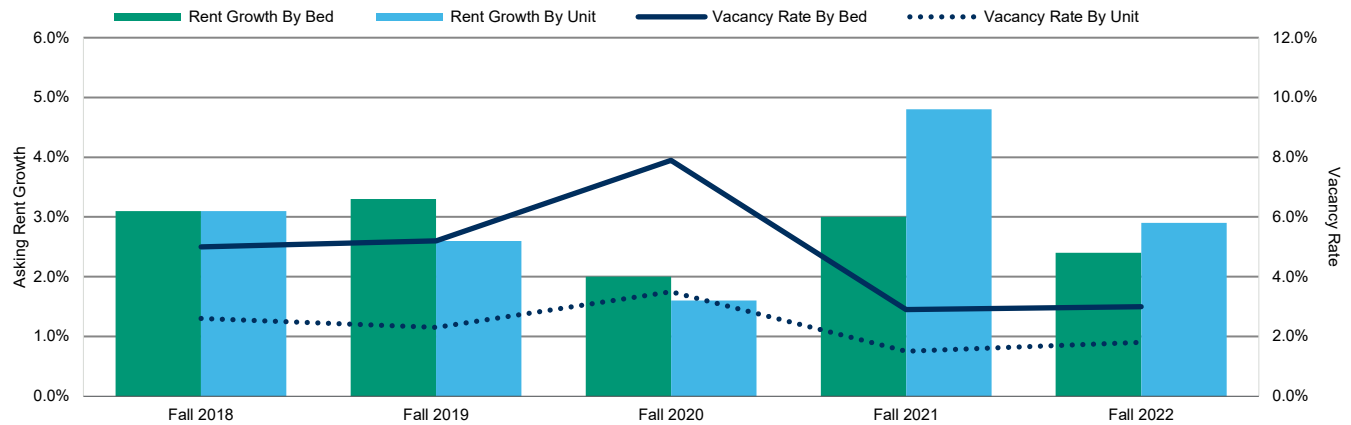
¹ <https://www.npr.org/2022/01/13/1072529477/more-than-1-million-fewer-students-are-in-college-the-lowest-enrollment-numbers->

Vacancies to remain at record lows

Following strong vacancy declines in the Fall 2021 school year, the Fall 2022 vacancy rates are projected to remain steady, showing slight vacancy increases. Vacancy rates for properties that rent by the bed are expected to increase 10 basis points to 3.0% from 2.9% while properties that rent by the unit are expected to increase 30 basis points to 1.8% from 1.5%. While vacancy rates for both are expected to increase, vacancy rates are expected to remain at record lows, only being lower in Fall 2021 for their respective rent type.

For properties that rent by the bed, vacancy rates are expected to increase in all regions except for the Southwest region where it is expected to decline by 10 basis points to 2.7%. Meanwhile, the largest vacancy increase is expected to occur in the West region which is expected to increase by 60 basis points to 2.9%. For properties that rent by the unit, the vacancy rate is expected to increase in all regions except for the Southwest region where the vacancy rate is expected to remain flat at 1.5%. Meanwhile, the largest vacancy increase is expected in the Northeast region where the vacancy rate is expected to increase by 70 basis points to 1.9%.

Figure 1 Student Vacancy and Growth



Source: Moody's Analytics REIS

Rents continue their climb

With vacancies expected to remain steady for Fall 2022, asking rents are expected to continue to grow, however still below their historical average. Before the Fall 2020 school year, where properties that rent by the bed and by the unit had their weakest rent growth, asking rents were rising an average of 3.3% per year for properties that rent by the bed and by the unit. In comparison, at the national level for the Fall 2022 school year, asking rents for properties that rent by the bed is expected to increase 2.4% while properties that rent by the unit are expected to increase 2.9%.

At the regional level asking rents are expected to increase across all US regions. For properties that rent by the bed, the largest rent growth is expected in the West region which is expected to increase by 3.1% while the weakest growth is expected in the Northeast region which is expected to increase by 1.8%. For properties that rent by the unit, the largest rent growth is expected in the West region which is expected to increase by 4.3% while the weakest rent growth is expected in the South Atlantic region which is expected to increase by 1.5%.

Figure 2 Student Housing Fundamentals Data

NATIONAL STUDENT HOUSING MARKET BY BED, FALL 2019 – FALL 2022				
YEAR	VACANCY RATE	VACANCY CHG, BPS	RENT GROWTH	INVENTORY GROWTH
2019	5.2%	20	3.3%	4.4%
2020	7.9%	270	2.0%	3.3%
2021	2.9%	-500	3.0%	1.9%
2022	3.0%	10	2.4%	2.7%

NATIONAL STUDENT HOUSING MARKET BY UNIT, FALL 2019 – FALL 2022				
YEAR	VACANCY RATE	VACANCY CHG, BPS	RENT GROWTH	INVENTORY GROWTH
2019	2.3%	-30	2.6%	0.7%
2020	3.5%	120	1.6%	0.8%
2021	1.5%	-200	4.8%	0.5%
2022	1.8%	30	2.9%	1.3%

Source: Moody's Analytics REIS

Resurgence in Supply

A major contributor to the expected steady vacancy rates going into the Fall 2022 school year is the expected resurgence in supply. Fall 2021 saw the near-record low completion totals for both properties that rent by the bed and by the unit where properties that rent by the bed created 17,234 beds while properties that rent by the unit created 1,388 units. Historically, before Fall 2021, properties that rent by the bed completed an average of 37,502 beds per year while properties that rent by the unit completed an average of 1,953 units per year. In comparison, for Fall 2022, properties that rent by the bed are expected to complete 24,677 beds, while properties that rent by the unit are expected to complete 3,539 units.

Outlook

Looking forward to the Fall 2022 school year, the fundamentals are expected to remain fairly steady following a strong 2021 school year. With inventory levels expected to pick up the pace, keeping vacancies fairly steady, and increasing slightly, and rent rates expected to grow below their historical averages. An area to keep in mind is a continued decline in enrollment figures which continue to fall at a faster pace than their historical rates. A declining enrolment rate can potentially end up affecting the student housing market if it falls below the current demand for housing and effective the vacancies and rents of the sector.



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