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## Is Student Housing in Trouble?

by Ron Johnsey on [December 5, 2013](#)

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In the Dec. 4 edition of the *Wall Street Journal*, writer Dawn Wotapka discusses how the foreclosure of the 1,150-bed University Fields at Port Road in Harrisonburg, VA (serving James Madison University) could represent a harbinger of things to come in the student housing sector. Wotapka points out that increasing supply is at fault, as students flock to the newer, more improved product.

The Wall Street Journal was absolutely correct in its comments; analysts in the industry are concerned that new beds coming online will squeeze out the older operators, thus increasing the number of foreclosures and distress in this once recession-proof sector.

This could have been one reason why University Fields fell into foreclosure. The 1,150-bed complex built in two phases in 1989 and 1997, didn't offer much in the way of amenities. It was likely that newer product featuring single bathrooms and up-to-date onsite amenities was more appealing to students.

But we need to be careful not to extrapolate what happened with University Fields to what's happening throughout the entire student housing sector. Other aspects should be considered when it comes to James Madison University and its student housing.

1) Since 1995, 7,165 beds were added to James Madison's housing stock. Additionally, according to Axiometrics' most recent numbers, 651 beds are now under construction and scheduled to deliver in 2014. Future plans call for the construction of more than 950 beds in late 2014 and 2015 that will be student-competitive properties. "Student competitive" properties are defined as conventional apartments that are home to a high number of college and university students.

2) Along with the increase in student housing stock, James Madison continues experiencing a consistent and moderate increase in enrollment. In 2012, the college reported enrollment of 19,927 students. A year later, for 2013, enrollment stood at 20,138 students. In fact, during the past decade, enrollment overall increased by more than 3,700 students which explains, in part, why more housing has been added to the university's stock.

3) Not all student housing properties at James Madison are experiencing declining occupancy.

As an example, American Campus Communities' 9/30/13 earnings supplement points out that Stone Gate, at 1820 Putter Court, experienced an improvement in occupancy from 96.3% in 2012 to 99.1% in 2013. Rent growth was 0.8% for the same period.

4) In a student housing survey conducted by Axiometrics, 11 of the 13 student housing properties near the James Madison campus reported occupancies of 92% and above. The overall average improvement is likely tied to increasing enrollment.

5) The campus' newer product is filling up quite well. Even with University Heights going into foreclosure, the overall occupancy average across all properties increased from 90.6% in October 2012 to 92.4% in October 2013.

6) Two American Campus Communities properties – The Commons (at 869 B Port Republic Road) and South View (at 1070 Lois Lane) – did experience year-over-year drops in occupancy of -11% and -3.3% respectively. But much like University Fields, these are older properties.

One thing we stress at Axiometrics is that generalizing student housing trends is difficult. Statistics in this sector can vary widely based on asset type, the asset's age, rental costs, university and location. Having said that, student housing's national occupancy rate improved from 92.8% in October 2012 to 93.9% in October 2013.

Certainly there are issues we need to keep an eye on, such as the growth of online education and costs of higher education. Furthermore, enrollment growth is slowing – in 2013, we're forecasting a 1.8% enrollment growth, down from the 2.4% reported in 2012. But given the number of first-time freshmen coming up through the ranks during the next few years, the pace of enrollment should pick up beginning in 2015.

Putting all of this together, here are the takeaways both from the Wall Street Journal article and Axiometrics statistics:

1) Student-housing foreclosures are taking place and will continue to do so. In fact, we'll likely see an increase in foreclosures. This does not mean, however, that the entire sector is suffering or on the verge of collapse. In fact, close to two-thirds of the student properties surveyed across the country in October 2013 reported an occupancy rate of 95% or better.

2) We likely won't see the peaks of 2009-2011 enrollment or demand for beds return this year or even in 2014. In fact, student housing rent growth was only 0.4% in 2013. But this isn't heralding the collapse of the student housing sector. If anything, we anticipate that demand, especially for newer product, will continue to be strong as university enrollment continues on a more moderate upward trajectory.

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