

FINANCIAL ADVISORY

Student Housing Properties

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In pursuit of higher cash flow, many of my investors have bought Student Housing Properties over the past several years. We have been pleased with the results, so I wanted to use this month's article to explore this niche of the multifamily market.

A POTENTIAL WAY AROUND RENT CONTROL

The state of California, while ignoring the expressed wishes of voters in an election, enacted statewide rent control regulations in 2020. Some municipalities have their own regulations with even more draconian restrictions than the statewide ordinance. For now landlords are free to bring their rent prices up to market when a tenant vacates, but a landlords' power to make a client vacate has been severely restricted. Imagine if we could rent to a tenant base who will regularly vacate our units voluntarily every 1-4 years?

With student housing, we have just that. College students will often live in a different place every year, and will move away from the area entirely once they graduate and enter "the real world."

A CAPTIVE TENANT BASE

Some of my clients own vacation rental properties on the Newport Beach Peninsula. Since they own a scarce asset; residential properties walking distance from the ocean, they enjoy considerable pricing power and collect rent substantially higher than property owners just a mile away on the mainland. There is comparatively much less property in that area close to the ocean. Owners can therefore take advantage of low supply to charge higher prices.

Student housing properties are very similar. An ideal student housing property is within easy walking distance of a major university. There is only so much residential space available around a college – it needs to share space with restaurants and retail stores, too. As such, student housing owners can command premium rent as well.

WHAT ARE THE RISKS?

Premium rents can only be charged to tenants who place premium value on an apartment's location. An apartment may be worth \$2,000 a month to a student at the college across the street, but it may



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only be worth \$1,000 / mo. to non-student residents in the same neighborhood. If the university builds another dorm and adds 2,000 more beds to the market, or if large developers build large luxury properties nearby, this could decrease demand from students for our units. In a worst-case scenario, we may need to rent to those \$1,000 / mo. neighborhood residents rather than the \$2,000 / mo. students.

WHAT TO LOOK FOR

To reduce the risk of losing our residents to competing properties, the location of a student housing property is very important. If the property is across the street from campus AND in a desirable area, it may better withstand competition from other developments.

Research on the surrounding area is very important when shopping for student housing properties. How close is the property to the university? Where are the restaurants, nightlife spots or fraternity and sorority houses located? An ideal location will be in easy walking distance of all these places.

The first thing I will do when evaluating a student housing property is perform “the Google Maps test.” Sometimes I’ll find a deal is 1 ½ miles from the university: this is a “no man’s land” of sorts: it is too far to walk, and too short a distance to drive. (And pay for parking.) I’ll also want to look at competing properties between the campus or other desirable amenities and the subject property. In the past, I was looking at a student housing

development that was selling for \$280,000 per unit. In the mile between the university and the property, there were at least 1,000 single-family houses with values of around \$150,000. If I was looking to buy student housing in that area, I would buy up dozens of houses rather than that apartment property.

ARE STUDENT HOUSING PROPERTIES FOR YOU?

Student Housing Properties can contain more risk than more “traditional multifamily” investments. As an investor, you will need to decide if the additional income and/or growth potential from a student housing property is worth any additional risk. Before I recommend a student housing investment, I will review the details discussed above. If I am satisfied with the property’s location and believe we’ll see a steady stream of students at the university over the next decade, then the additional return potential can outweigh the additional risk. Do you have questions about student housing investments? My toll-free number is (877) 313-1868.

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