Demographic and Enrollment Trends Are Changing the US Student Housing Sector Landscape

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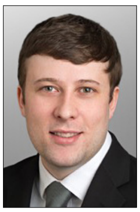

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The student housing sector in the US has long been an investor favorite. Hines Research believes this is because of its countercyclical demand trends and consistently high occupancy rates. However, as we have delved into the intricacies of this market, it has become evident that the highly supportive demographic trends of the past two decades have begun to dissipate. This shift prompts the need for investors to adopt a more discerning approach to identifying future opportunities. This article explores the complex trends shaping the US student housing sector and sheds light on how Hines is strategically approaching these challenges.

Top-Line Enrollment Data: Unraveling Complexity

Total undergraduate enrollment in the US witnessed its zenith in 2010, reaching just under 18.1 million students. However, since then, there has been a significant decline (–13.6%), resulting in enrollment of 15.6 million as of 2023.[1] This equates to the loss of 2.45 million students, marking a substantial shift in the landscape of higher education.

The broader enrollment data are even more nuanced when analyzing the breakdown by type.[2] Over the past 13 years (since year-end 2010), the bulk of the decline has been in two-year programs, which experienced a 36.8% decrease in the number of students enrolled. Interestingly, four-year enrollment saw growth of 3.6%, amounting to an increase of more than 376,000 students during the same period. Although the four-year growth appeared promising from a student housing perspective, a deeper examination revealed it was all attributable to online-only programs. Online enrollment surged during the pandemic and recorded a staggering 147% increase since 2010.[3] These programs accounted for nearly a quarter of total four-year enrollment, up from roughly 10% in 2010. In contrast, the decline of "in-person" four-year enrollment (which constitutes the majority of student housing demand) was also exacerbated by the pandemic, falling 12.8% (or about 1.2 million students) since 2010 (Exhibit 1).

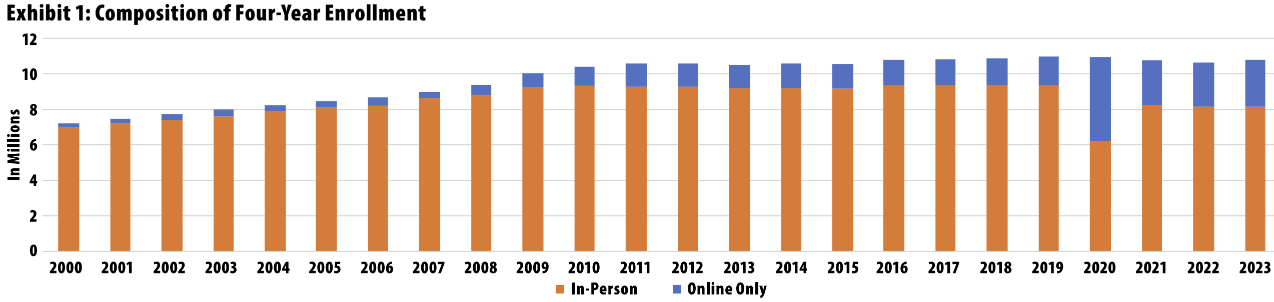
Demographics and Enrollment Trends: A Dual Challenge

Over the past 13 years, the US population of 18- to 25-year-olds has increased by only 2.1%, amounting to an additional 633,000 individuals in their peak college-attendance years.[4] This is in stark contrast to the preceding 13-year period, when this vital college-age demographic increased by 20.7%, or nearly 5.3 million.

In addition to demographic shifts, the enrollment rate in four-year programs experienced a mere 0.5 percentage point increase over that same period, from 33.8% in 2010 to 34.3% in 2023. This represents a dramatic drop from the prior 13-year period, when the rate jumped by 6.9

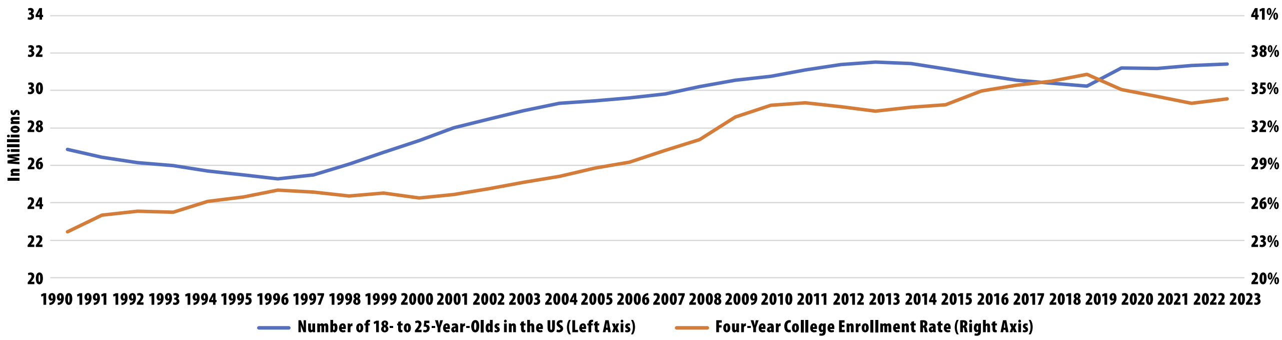
1. National Center for Education Statistics (NCES), National Student Clearinghouse, Hines Research as of year-end 2023.
2. Ibid.
3. NCES, National Student Clearinghouse, National Council for State Authorization Reciprocity Agreements, Hines Research as of 3Q32023.
4. Moody's Economics, US Census Bureau as of year-end 2023.

Exhibit 1: Composition of Four-Year Enrollment



Sources: Moody's Economics, NCES: Integrated Postsecondary Education Data, Hines Research as of year-end 2023

Exhibit 2: The Two Factors Leading to Enrollment Declines



Sources: Moody's Economics, NCES: Integrated Postsecondary Education Data, Hines Research as of year-end 2023

percentage points—clearly the rate of US enrollment growth has slowed significantly. A potential contributing factor to the deceleration is the high cost of attending universities.

The combination of slower growth in the 18- to 25-year-old demographic and a decline in the growth of enrollment rates has put substantial downward pressure on the potential growth of US student housing demand (Exhibit 2). Successful investors in this sector must grapple with a shifting landscape and adapt to these evolving industry trends.

Considering future demographics, projections of in-person four-year enrollment trends are reliant on several assumptions. In the most pessimistic scenario (US enrollment rates continue to decline, and online-only learning remains prevalent), in-person four-year enrollment could see a substantial decline of roughly 2.3 million students through 2032. Even in an optimistic scenario in which enrollment rates return to their 2019 peak and online-only learning reverts to pre-pandemic levels, the population of in-person enrollment at four-year institutions is estimated to grow only by a modest 191,400 over the next eight years,given demographic trends.[5] In either environment, the recent trend of weaker US colleges and universities closing or merging with other institutions is likely to continue.

Delineating the Winners and Losers

An analysis of 569 US colleges and universities unveiled a significant shift in enrollment dynamics.[6] For the first time in 2019, the share of institutions experiencing declining enrollment exceeded 50%, and that percentage has surpassed 60% in recent years. This is a substantial departure from 2010, when less than a quarter of institutions witnessed enrollment declines.

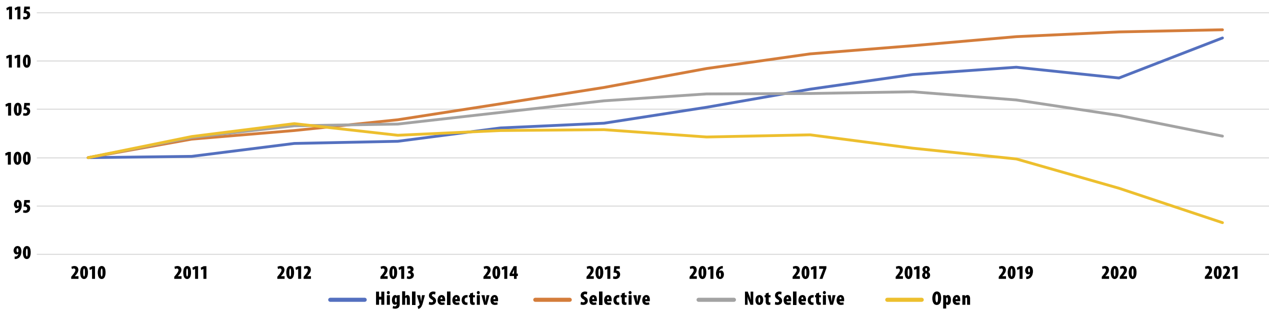
To distinguish between the winners and losers in the student housing sector, Hines Research has developed Student Housing Core Scores. These scores are based on factors that historically have proved to impact student housing demand and rent growth, including existing campus beds per student, the expected number of campus beds per student given the specific type of institution (from commuter school to highly residential), the total number of students within 15 minutes of the institution, the percentage and change in the number of students, and student housing costs relative to other nearby living options.

The Student Housing Core Scores demonstrate a robust historical correlation to student housing metrics. Institutions with core scores exceeding 75 have enjoyed long-term revenue growth that is more than double the revenue of schools with scores of 50 to 75 and nearly six times that of institutions with core scores less than 25. In addition, enrollment trends are much stronger among high core score institutions than their lower-scoring counterparts.

Dissecting the core score data by acceptance rates reveals interesting trends (Exhibit 3). "Highly selective" colleges and universities, defined as those with an acceptance rate of less than 30%, have fully recovered the losses in enrollment suffered during the pandemic, and enrollment was more than 12% higher than it was in 2010.[7] In addition, the share of enrollment that is fully online at these institutions is the smallest of the four

5. Hines Research as of year-end 2023.
6. NCES Integrated Postsecondary Education Data System (IPEDS) as of 2021. Hines confirms that, to the best of its knowledge, more updated information is not available and the above remains materially accurate.
7. Ibid. There is no guarantee that enrollment rates will continue to follow these trends.

Exhibit 3: Total Enrollment Index by Acceptance Rates (2010 = 100)



Sources: NCES: Integrated Postsecondary Education Data, Hines Research as of year-end 2023

categories at just 3.5%, according to the latest data for the 2021–2022 academic year.[8] However, these 41 highly selective institutions tend to be smaller,with an average total enrollment of 22,844, and collectively, they school just 8% of total US enrollment.[9]

The "selective" category (institutions with an acceptance rate between 30% and 70%) enjoyed the strongest growth in enrollment since 2010, as illustrated in Exhibit 3. Total enrollment in selective colleges and universities was nearly 3.5 times larger than that of the highly selective category, and though the average enrollment size in each is slightly smaller than in the highly selective group, there is a diverse mix of sizes, with 29 of the 126 institutions in this category enrolling more than 30,000 students.

Schools deemed "not selective" (which accept 70%–95% of applicants) and those defined as "open" (accepting more than 95% of applicants) were the ones struggling with declining enrollment and therefore offered the least amount of support for student housing demand.[10] Collectively, they accounted for more than 60% of total US college enrollment. However, not all institutions in these two categories suffered from enrollment declines; about 27% of those in the not-selective category and 17% in the open category enjoyed gains.[11] So although selectivity is an important indicator, it is not the only indicator that matters, and each institution needs to be evaluated individually; increases in total enrollment need to be parsed to net out the online-only component.

Conclusion

There may be much to like about the US student housing sector, including a historical 50–75 basis point yield spread[12] over traditional multifamily, increasing enrollment at a subset of universities, countercyclical demand, and consolidation in higher education.[13] Combined with a nationwide housing shortage, these factors should provide support to the sector. However, the dissipation of macro drivers identified by Hines Research likely necessitates a targeted, strategic investment approach going forward. Investors must account for the changing dynamics of enrollment, demographic shifts, and the rise of online-only programs. Hines Research believes understanding the divergent trends across institutions is increasingly imperative to distinguish between those experiencing growth and those facing challenges. The ability to analyze this evolving landscape is crucial for making informed investment decisions in the US student housing market and navigating the challenges that lie ahead. ■

Josh Scoville is Head of Global Research and a member of the Investment Committee and Erik Thomas is Director of Research at Hines.

8. Ibid.
9. Ibid.
10. Ibid.
11. Ibid.
12 Mark Cooper, "Why Investors Dig Student Housing," *PERE*, June 5, 2023.
13. Past performance does not guarantee future results.