Student Housing a Good Investment
Parents of college-bound kids can benefit from enrollment boom
By Gayle B. Ronan
MSNBC

According to Michael Zaransky, co-CEO of Prime Property Investors based in Northbrook, Ill., and author of *Profit by Investing in Student Housing: Cash In On the Campus Housing Shortage,* the opportunity has staying power. “About 80 million 'echo boomers' will turn eighteen over the next ten years,” he says. As they do, they will head to college in record numbers, further straining their chosen school’s already stretched budgets, especially if it is a public university.

“After funding enrollment, research, and hiring more professors, there is not enough money left for building dorms,” explains Donna Preiss, founder and CEO of The Preiss Company, which rents, manages and develops investor-funded student housing. This is why many schools are relying on the private market to supply off-campus housing instead.

That is a good thing for Howard and her husband who own a rental building close to campus. “So far, our building has been a very good investment,’ adds Howard, whose business —managing student housing investments for other owners — is also thriving as students scramble to find a place to live.

Not only is full occupancy typical for student housing, says Zaransky, so is the ability to increase rents. The students show up regardless of local unemployment or interest rate levels, and they pay the going rate since they have to live somewhere — besides adding roommates can keep even increased rents affordable.

That this niche operates primarily on supply and demand is its key attraction to investors. Also key is its positive cash flow despite hefty expenses — real estate taxes, high insurance premiums (reflective of the reputation of student renters), utilities, repair, maintenance, advertising and fees for management services.

But not all college towns or investment opportunities are created equal. Like any investment, selecting a property requires some homework.

Location, Location, Location
The best properties are within walking distance of a campus, says Zaransky. They are also located where the kids are increasingly choosing to go to school.

“The southeastern and southwestern states especially draw the most kids,” says Preiss, who notes the northeastern schools are more likely to institute enrollment caps which limits their attractiveness to investors.

Zaransky also warns against going where rental properties are already abundant, as in large urban areas like Chicago and New York, especially after the recent run up in property prices there. “The odds tip in an investor’s favor with moves to pure college towns,” he adds, noting that Boston is the exception to this.

To help identify prime campuses, Zaransky uses a ratio to relate the number of university-owned beds to enrollment, using data mined from registrars’ offices. “Nationally, this ratio averages about 30 percent,” he reports. But it varies widely. At Arizona State University, for instance, he estimates the ratio to be 11 percent meaning 89 percent of ASU students are renting off-campus.

That imbalance is precisely what Rick Steele, a Denver businessman is looking for. His son will be attending ASU this fall and Steele intends to invest in a condo for him.

This is not Steele’s first attempt at making a student housing investment. He wanted to buy property when his older son was in school in Providence, R.I. But that market seemed to offer minimal price appreciation and most of the available property involved older boarding houses. “It did not make financial sense since they were in need of so much maintenance and repair,” says Steele, who opted to pay rent instead.

He finds the Phoenix/Tempe market much more hospitable. “It is so vibrant and the housing stock is newer,” he says. Newer is better for today’s students, who prefer buildings with pools and saunas and view wireless Internet connections as an essential. Preiss, for example, builds her units with bedroom-to-bathroom parity so roommates do not have to share facilities.

“I figure with what I would pay for a dorm or fraternity, at worse I may breakeven when I sell. If the property appreciates, then it will help offset the education cost,” says Steele, adding “Either way, at least my son will have a nice place to live while he is there.” Steele’s attitude is a good one and realistic for parents who only expect to hold their ‘kiddie condos’ for three-to-five years.

“It is really too short a period of time to realize enough of a return after the expense of holding and then selling to make it worthwhile,” says Stuart Tsujimoto, a certified financial planner with the Financial Network in Torrance, CA. He speaks from experience, having bought a condo for his daughter while she attended San Diego State University.

Tsujimoto, who bought the condo outright rather than mortgaging it, feels that after factoring in his expenses plus the realtor’s commission when he sold, he would have made roughly the same return on his money by investing in a mutual fund and making withdrawals to pay for rent.

But for those who intend to buy and hold after graduation, the experience seems to be more positive. Tim Hinz, a realtor with Keller Williams in San Diego has had a number of clients buy condos for their college-bound kids. “So far everyone who did, held onto it or gave it to the child who assumed the mortgage payments after graduation.” Many, given the particulars of the area, may also be holding for a retirement use later on in life.

Preiss also says most of her clients view their student condos as long-term investments. Even her parent-buyers tend to hold after realizing how attractive the cash flow is. They simply have her, as the property manger, rent out the freed-up ‘bed’ once their child moves on. In Preiss’s developments as in others, leases are written by the bed or directly with each roommate, removing the legal onus of having to enforce a lease from parents, investors or owner-students.

While buying a ‘kiddie condo’ can be advantageous versus paying rent or the dorm expense, especially if a parent can access a Federal Housing Administration program to help finance it. Dubbed the "Kiddie Condo Loan," the program allows students — and non-students — to purchase a home with an assist from a blood-relative’s good credit standing and cash. The home must be considered the primary residence of at least one of the borrowers, but renting out space to roommates is allowed. If the child moves out after graduation, the borrowers would have to refinance or sell the property to pay off the FHA mortgage.

These loans only require 3 percent down and since they are considered owner-occupied, they qualify for all the tax advantages of a primary residence; whereas a condo purchased as a second home or investment property may limit the tax breaks and raise the interest rate offered.

In addition to not having to deal with dorm-life, the owner-child benefits from building a credit history, having a place to live, and potentially assuming the responsibility of being a landlord to their roommates.

Despite those financial incentives, Zaransky advises parents not to feel obligated to invest where a child is attending school. Actually, he sees no reason to link the investment to a child at all.

“It just needs to be a good investment — rents need to be rising in the area you choose, and there should be an opportunity for appreciation over time. If those factors are not present at a child’s university, then parents should invest in another town and pay rent for their child’s housing instead,” he says.

For those who cannot swing the purchase of a condo or multi-unit building as an investment, there is another option for cashing in on the student housing shortage. There are actually three publicly traded Real Estate Investment Trusts that focus on student housing. Each offers a generous dividend yield and allows shareholders to participate without having to deal with the responsibilities of ownership. They are:

- American Campus Communities (Symbol: ACC)
- Education Realty Trust (EDR)
- GMH Communities Trust (GCT)

Regardless of how one chooses to invest, with growing demand for housing outstripping its supply, the investment returns are expected to continue far longer than the four-to-five years a child spends in college.

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An Introductory Course in Student Housing Investment

By Richard Levy

A glance at college enrollment figures over the last few decades shows some dramatic trends. Shortly before World War II, only approximately 160,000 Americans were in college. But thanks to 1944's Servicemen's Readjustment Act, better known as the G.I. Bill of Rights, in the years immediately after the war, approximately 2.2 million military veterans went to college. A few decades later, a swell of "Baby Boomers" born between 1946 and 1964 crowded college campuses; enrollment rose to nearly eight million in 1970.

Now, get ready for the Millenials, because colleges across the country certainly are. Many of this group of 75 million children of Baby Boomers, also known as the "Echo Boomers", will be attending college this decade, and this surge of incoming college students is capturing the interest of real estate professionals because providing private off-campus rental housing to these college students can be a great investment opportunity. But even if your firm does not focus on providing student housing, trends in this market will likely affect you in the years to come.

Why Student Housing is a growing market There are several reasons why many real estate professionals are becoming interested in investing in student housing.

- That wave of Echo Boomers will be filling college classrooms for years to come. The National Center for Education Statistics projects that college enrollment will grow by 11% between 2003 and 2013.
- College enrollment trends are even better than generational demographic trends--for most of the years between 1995 and 2014, the growth rate in college enrollees is expected to exceed the growth rate of 18 to 24 year olds.
- Today's college students are taking longer to graduate, so they need student housing for a longer time. According to the report Trends in College Pricing 2005 from the nonprofit organization the College Board, almost 40% of today's undergraduates are older than 24.
- Higher education tends to be less affected by economic trends. The reason for this is simple: when the economy is slow, people seek a college degree to improve their marketability in the job market; when times are good, a college degree is an important credential.
- The median rent increase among student housing apartments has been higher than the rent component of the Consumer Price Index over the last two years, according to National Multi Housing Council (NMHC) calculations.

Our findings Two years ago, NMHC took our first look at the student housing market niche by examining 64 "college towns" across the country to see what the demand for student housing was at that time--and what price the market was allowing. To build on that research, we returned to those same 64 college towns this year to look at rent growth between 2004 and 2006.

To get a helicopter-level view, we calculated a median rate of 7% overall across all 64 markets and across all the different types of units (studio, one-bedroom apartments, two-bedroom apartments, etc.). This 7% growth rate slightly exceeds the 6.5% growth in the Consumer Price Index's broader rental measure during the same period, indicating healthy rent growth in student housing.

Of course, such a broad median figure is only a starting point. Before investing in a particular college town, it pays to do your homework. Not surprisingly, of the 64 college towns we examined, many of those that recorded the biggest rent growth between 2004 and 2006 were in areas with already high housing costs. With some of the highest housing costs in the country for both rental and owned housing, California's student housing picture mirrors those high housing costs.

For example, Stanford University has the highest rents for units with two bedrooms and two bathrooms as well as those with three bedrooms and two baths; $2,069 and $2,534, respectively. And the University of California at Irvine has the highest monthly rents for studio ($1,394), one-bedroom ($1,481), and two-bedroom, one-bathroom ($1,637) apartments.

Important Implications for the Future No longer content with one shared bathroom per hallway and a single TV lounge, the Millenials starting college in 2006 expect the full range of amenities in their accommodations; cable television, high-speed Internet and fitness centers are some of the luxuries they demand. So, studying student housing can provide an important lesson for developers and operators of all multifamily housing. When today's students graduate, they are going to demand the same amenities in their post-college housing--in other words, since today's students are tomorrow's apartment renters, the entire industry is wise to pay close attention to what today's students are seeking in their housing.

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College Housing Investing: Room And Board Is a Terrible Thing to Waste

by M. Anthony Carr

With three teenagers in the house heading to college in a few years, and several of my friends facing the same demographic, the discussion turns to whether or not it's a good idea to purchase a house for your student instead of paying for rooming costs.

The College Board reports the average cost increase over the last five years has been about five percent per year. The 2004-05 national average cost for a four year public college or university is $14,640 per year; for a four year private college or university, it is $30,295 per year.

In the last 25 years, college costs have risen at twice and sometimes three times the Consumer Price Index. Over the last decade, after adjusting for inflation, the average four-year public tuition, fees and expenses rose 75 percent for both public and private colleges, according to the College Board, the organization that administers the SAT exams and other entrance programs for its 4,700 member schools.

Where the tuition used to be the primary expense, room and board are playing a significant role in higher education expenses -- many times exceeding the cost of tuition. The College Board reports that the average monthly room and board cost is $6,222. Over a nine month school year, it would be roughly $690 per month. Can you do better than that if you own a condo, townhouse, or home in the college town?

Plenty of parents are opting for the home purchase instead of the dorm rental -- but that's not always the best way to go. Before you plop down money to purchase your kid's "dorm" unit, be sure to run the pros and cons, which are generally dictated by finances and time.

Financial

Here are some questions to answer before moving forward:

- Does the transaction make sense financially at this time in your life?
- Will the purchase create a positive or negative cash flow?
- With that said, would the negative cash flow be less or more than the monthly expense of paying for a dorm room?
- Where is the cost of housing going in the college town?
- What's your rate of return on your down payment and closing costs over the next four years?
- Will you be able to rent out other rooms besides your student/child to reduce your monthly cost?
- How will this work out for you as far as taxes are concerned?
- Do you have enough reserves to cover the breakdown of the air conditioner, furnace, hot water heater, appliances, winterizing, cleaning and maintaining of the property (In a dorm or campus housing, these expenses are covered by the college/university)?

Time

If you decide the investment would be worth the financial expense, then you also need to take a look at time:

- Do you have time, or resources to take care of the property management?
- Who will you call cross-state or inter-state for repairs to the property?
- Who will handle eviction of other students in the house if they fail to pay rent?
- Will your child/student be responsible enough to report, and repair, any breakdowns in the house/investment you've made to save money so that the property is maintained and doesn't become a money pit?

On a final landlord note: now that you're entering the investor field, you must also adhere to the Fair Housing Act. This means you cannot discriminate against any renter based on the seven protected classes: race, color, nationality, sex, familial status, religion, and handicap. This doesn't include other protected classes that might be required on a local basis, such as sexual orientation, source of income, matriculation, political affiliation or more. For more information on this area of the law, visit HUD.gov.

There are more aspects to owning a rental property in your child's college town than just having a cheaper place to house them instead of the dorm. Be sure to conduct your research, determine your financial and time limitations and act accordingly.

FHA Kiddie Condo Loans

If you are the parent of a full time student, FHA has made it easier for you to help your son or daughter purchase a new home. It is also a great way for young adults to get started buying their first home is by using the FHA "Kiddie Condo" Loan Program. This type of mortgage allows a person to co-borrow with a blood relative (eg. parent, grandparent, sibling, etc.) who helps qualify for the loan using their income or assets. Both borrowers take title to the property and sign for the loan.

Instead of paying rent on an apartment, a full time student would be eligible to purchase an FHA eligible property (singe family residence, townhome, condo, etc.) with the assistance of his or her parent(s).

There are three big advantages to using this type of loan.

- A low down payment (as little as 3% of the purchase price)
- A lower, owner-occupied interest rate on the mortgage vs the higher investment property interest rate.
- Helps the new borrower establish a solid credit rating.

With a Kiddie Condo loan program, at least one borrower must occupy the property as his/her primary residence, but extra bedrooms could be rented out to help cover the cost of the mortgage payments. This is a perfect way for a college student, recent graduate, or anyone unable to obtain a loan on his/her own to buy a condo or townhome or single family home with the help of a family member.

Furthermore, the student does not need a job, credit history, or sufficient funds in his or her bank account for the down payment. The parents, however, must have sufficient credit, income, and funds to pay for the closing costs and down payment. In addition, it allows the student to build a credit history before graduation!

The tax benefits, such as deducting mortgage interest and real estate taxes on a Federal Income Tax return, can be divided among the owners, according to who pays the expense..