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Investment Opportunities in College Towns

September 2022

The Economic Powers of Colleges Propel Many Smaller Metros into Prominence: Analysis of 10 Notable College Town Apartment Investment Markets

College towns tend to rank among the country's small markets that generate solid returns for apartment investment. Influencing these results, college towns have a couple of inherent advantages over other locations of similar size.

First, they tend to have stronger economies. The colleges themselves add some stability to the working environment. Also, some graduates choose to stay in the towns where they attended college, yielding a better educated general workforce and typically a larger concentration of higher-paying industries. The economic advantage for college towns is especially pronounced when an area serves as a regional health care center, creating what's often called an "Eds and Meds" specialty.

Second, college towns are often simply comparatively appealing places to live. The schools and their students produce a wide array of cultural events, and entertainment-focused businesses tend to flourish in these settings.

Institutional Property Advisors has examined many of the nation's college towns, and presents here those with noteworthy apartment market performance statistics and investment trends. Note that the analysis below focuses on what's happening with conventional market-rate apartments, rather than off-campus purpose-built student housing properties. In most cases, however, the student housing developments in these locations also register positive results.

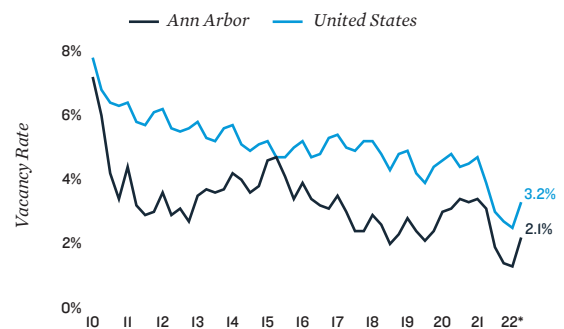
ANN ARBOR, MI

Home of the University of Michigan, Ann Arbor ranks among the country's stronger apartment market options no matter how you slice and dice the performance data. The vacancy rate for the 38,200 conventional apartments found in the metro as of June was limited to 2.1 percent, under the already low long-term norm of just over 3 percent. Rents that average a little more than \$1,400 per month are up 15 percent year-over-year. Historically, typical annual rent growth is lower, but the figure is still quite healthy at roughly 4 percent.

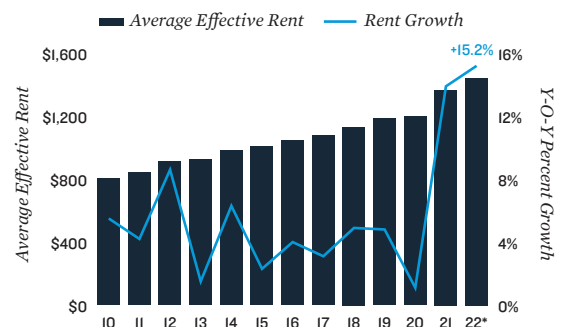
Ongoing conventional apartment construction in Ann Arbor is limited to some 600 units. In addition, off-campus student housing deliveries will total about 1,100 beds this year. While that's an unusually big block of student housing, there's been a shortage of off-campus student beds in the past. About six student prospects exist for every bed of purpose-built student housing product.

Apartment sales prices in Ann Arbor run at roughly \$235,000 per unit, relatively high for a Midwest location.

Ann Arbor Sustains Low Vacancy



Ann Arbor Posts Strong Rent Growth



* Through 2Q

Sources: IPA Research Services; RealPage, Inc.

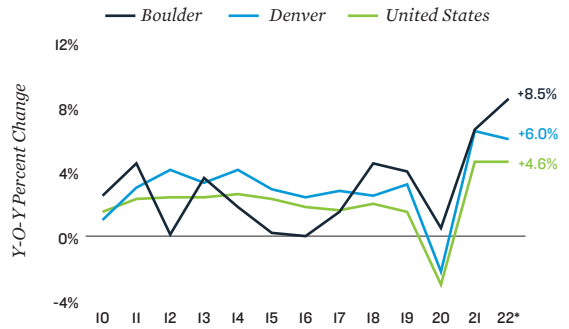
BOULDER, CO

It takes deep pockets to enter the Boulder apartment market, home of the University of Colorado. Existing product trades at an average price tag well above \$500,000 per unit, double the cost commanded in even the second-most expensive market on this list of appealing college towns.

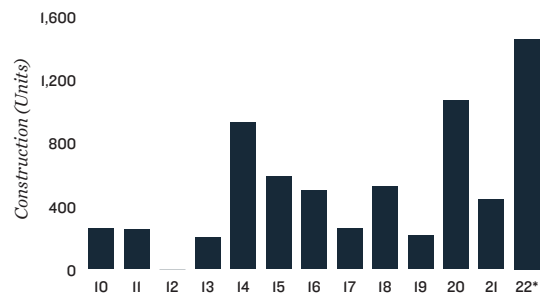
Boulder properties achieve correspondingly high rents. The monthly average tops \$1,900, up almost 13 percent year-over-year. Long-term typical annual rent growth comes in a hair under 5 percent. June's 3.2 percent vacancy rate was below the historical standard of 4.6 percent.

Ongoing construction of roughly 1,500 apartments will grow Boulder's base of 29,900 market-rate apartments at a significant pace of 4.8 percent. High development costs keep Boulder development concentrated on conventional product, rather than student housing. While the University of Colorado is the third-biggest school examined here (after the University of Michigan and the University of Florida), Boulder has the smallest inventory of beds in off-campus purpose-built student housing product.

Office-Using Jobs Expanding in Boulder

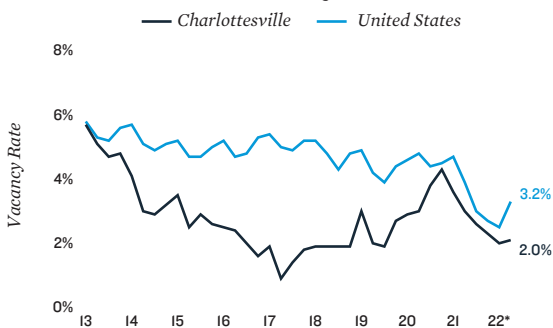


Boulder Apartment Inventory Growing

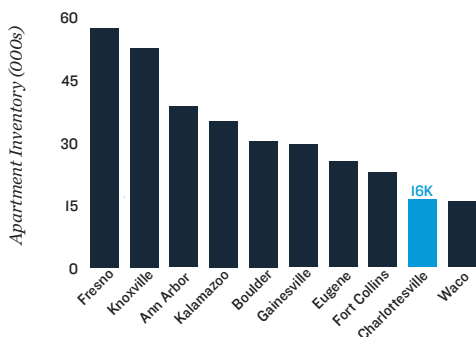


* Vacancy Through 2Q; Under Construction as of 2Q
Sources: IPA Research Services; BLS; RealPage, Inc.

Charlottesville Vacancy Below Nation



Small Size An Investment Factor



* Through 2Q
Sources: IPA Research Services; RealPage, Inc.

CHARLOTTESVILLE, VA

Charlottesville, home of the University of Virginia, is the smallest market featured in this analysis. Metro population is less than a quarter-million people, and the existing base of conventional apartments is limited to 16,200 units. While small size can increase overall risk, the key performance indicators here still make a compelling case for many investors.

At just 3.0 percent, Charlottesville's long-term average vacancy rate is the lowest across markets studied here. The midyear vacancy reading was lower still at 2.0 percent. Average monthly rents top \$1,600, up 10 percent over the course of the past year. Long-term rent growth that has been held to an annual average of 2.5 percent is the key less-than-stellar metric for the metro, but stronger rent production results appear achievable for property owners willing to risk incurring a little vacancy.

Ongoing apartment construction in Charlottesville is light at roughly 400 units. Building activity that's a little more aggressive has been typical here in the recent past.

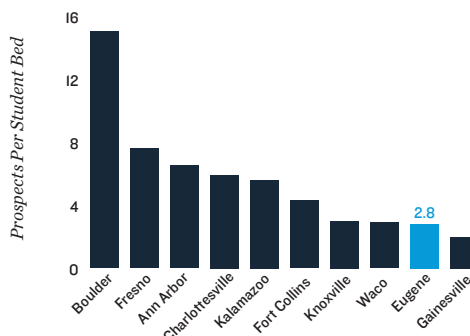
EUGENE, OR

Long-term annual rent growth in Eugene, home of the University of Oregon, reaches 5.5 percent, the best sustained pricing power achieved across featured markets. Second quarter monthly rents that top \$1,500 are up nearly 18 percent over year-ago rates. The midyear vacancy rate comes in at 1.7 percent, about half the long-term norm of 3.6 percent.

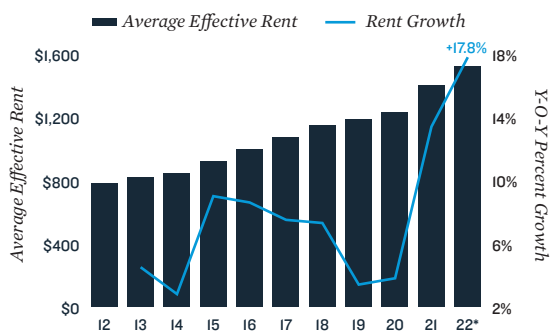
Ongoing conventional apartment construction here is limited to a mere 300 or so units, representing just 1.3 percent inventory growth for the base of 25,100 existing conventional apartments.

The key downside risk for Eugene’s market-rate apartments is simply that the student housing base is not substantially larger than the bed count for purpose-built student housing. With an existing inventory of 7,900 beds and total enrollment at 21,900 people, there are fewer than three student prospects for every bed of off-campus purpose-built student housing. That ratio will drop a little more with the completion of another 600 beds of student housing for the fall 2022 semester. This could temper students’ interests in seeking conventional rental options.

High Bed Count Relative to Enrollment



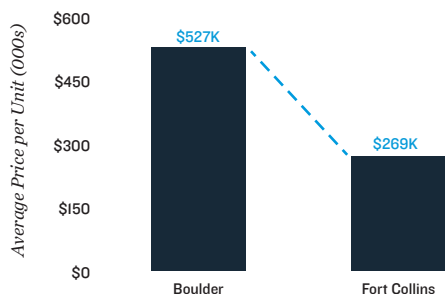
Eugene’s Great Rent Growth Track Record



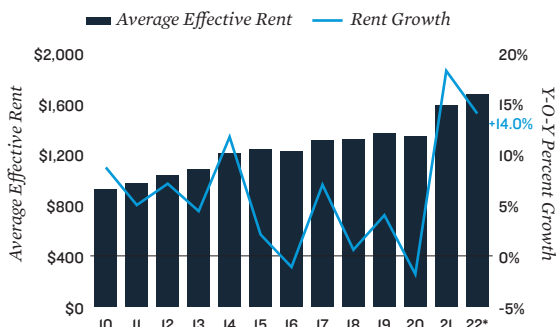
* Through 2Q

Sources: IPA Research Services; RealPage, Inc.; U.S. Department of Education

Fort Collins Relatively Affordable



Rent Growth Good But Inconsistent



Sales \$2.5 million and greater

* Sales as of 2Q; Vacancy and Rent through 2Q

Sources: IPA Research Services; Real Capital Analytics; RealPage, Inc.

FORT COLLINS, CO

For investors deterred by higher property pricing in Boulder, Fort Collins, home of Colorado State University, is a possible alternative. The typical sales price for recent trades averages \$269,000 per unit, about half the figure recorded in Boulder.

Average monthly rents of not quite \$1,700 per month in Fort Collins are up 14 percent year-over-year. Normal rent growth in the market tends to register at a little more than 4 percent annually. Today’s vacancy figure of 3.2 percent is mildly below the long-term norm of 4.0 percent.

Ongoing conventional apartment construction in Fort Collins stands at 1,000 units, representing 4.4 percent inventory growth for a metro with 22,700 rentals. No purpose-built student housing will be added this year.

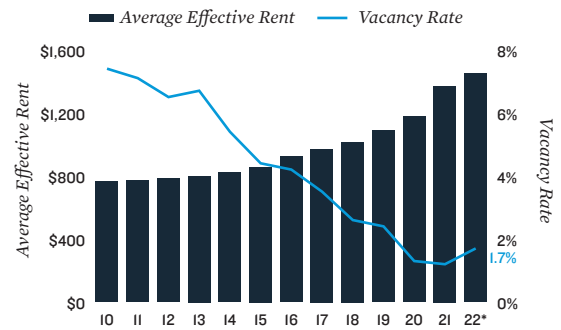
FRESNO, CA

Fresno, home of California State University – Fresno, perhaps pushes the size limit of a college town. The metro has a population of just over 1 million people, and its base of market-rate apartment product of 57,300 units is the biggest across the locations examined in this analysis.

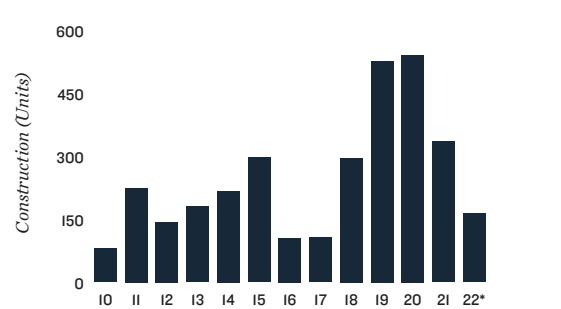
The standout performance metro metric for Fresno’s apartment market is extremely low vacancy, now at just 1.7 percent. Vacancy has averaged about 4.5 percent over the long term. Today’s average monthly rents are approaching \$1,500, up 13 percent year-over-year. The historically normal rent growth pace is around 3.5 percent annually.

It’s rare to add much new housing product in Fresno. Ongoing apartment construction is limited to about 200 conventional units. No further student housing is being built at this point.

Low Vacancy Encouraging Rent Growth

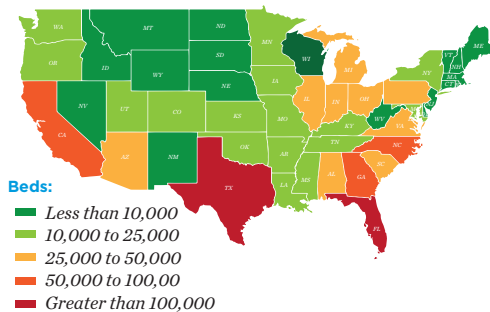


Apartment Construction Rare in Fresno

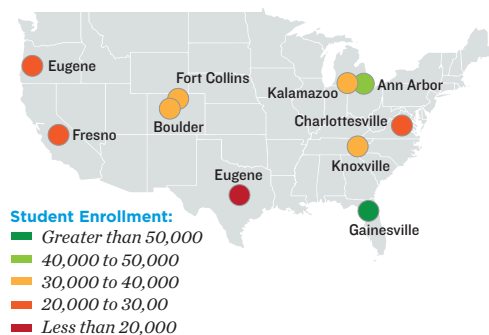


* Through 2Q
Sources: IPA Research Services; RealPage, Inc.

Heavy Student Housing Supply in FL & TX



Gainesville Leads These Towns in Enrollment



Number of Beds for Leasing Year 2021; Student Enrollment as of 2022
Sources: IPA Research Services; RealPage, Inc.; U.S. Department of Education

GAINESVILLE, FL

Conventional apartments in Gainesville, home of the University of Florida, continue to turn in solid performances, despite the fact that the student housing product sector here regularly teeters on overbuilt status.

The second quarter vacancy rate for market-rate properties comes in at just 2.5 percent, well under the long-term norm of 4.2 percent. Midyear average rents of slightly more than \$1,400 per month are up 16 percent year-over-year, with annual growth hitting four times the long-term standard that is right at 4.0 percent. The 800 conventional apartments under construction in Gainesville will grow the metro’s inventory of 29,200 units by 2.6 percent.

There are 26,600 beds of off-campus purpose-built student housing in the Gainesville market, and properties with another 1,100 beds are being added to the mix for the fall 2022 semester. While University of Florida enrollment is huge at 53,900 people, that’s just two student prospects for every housing bed, a ratio that generally limits rent growth potential within that base of student housing product.

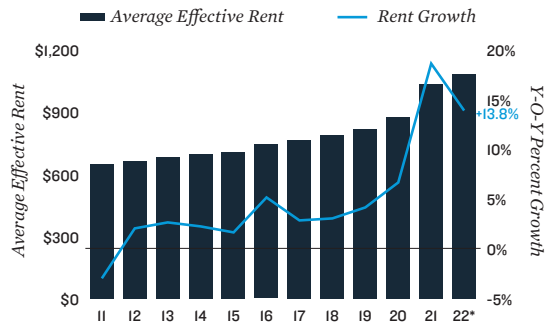
KALAMAZOO, MI

Several Michigan college towns register apartment market statistics that suggest they could be appealing investment choices. That list includes Kalamazoo, home to Western Michigan University.

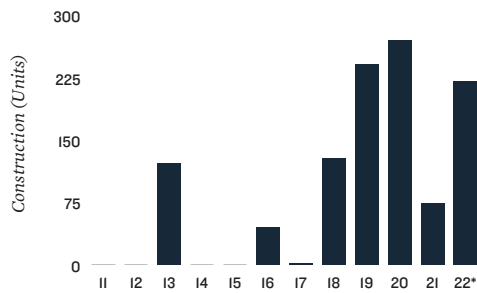
Second quarter vacancy in the 35,000 conventional apartments that exist in Kalamazoo stood at 2.0 percent, roughly half the long-term average vacancy rate of 4.2 percent. At just under \$1,100 per month, rents come in a little lower than in most of the other markets examined in this college town analysis, but pricing is climbing. Rents have jumped 14 percent during the past year ended in June, while typical yearly rent growth registers at a long-term average between 3 and 4 percent. Only 200 or so apartments are under construction.

Kalamazoo's typical investment price point is comparatively low at roughly \$128,000 per unit for sales executed in the first half of 2022. That's about half the pricing seen in Ann Arbor.

Kalamazoo Records Solid Rent Growth

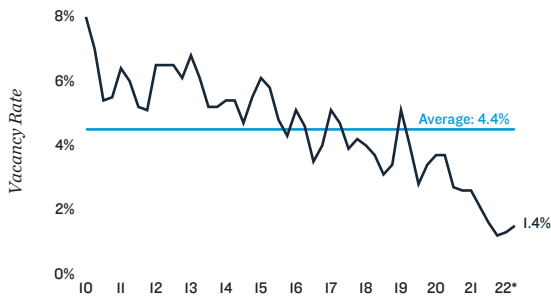


New Supply Inconsistent in Kalamazoo

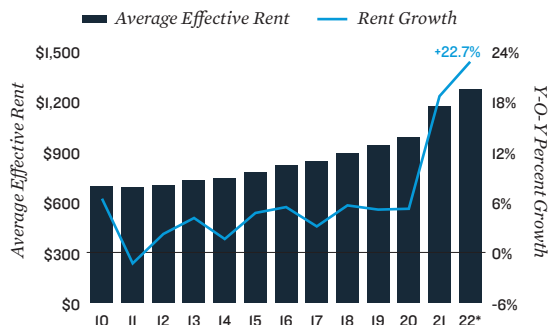


* Rent Growth Through 2Q; Under Construction as of 2Q
Sources: IPA Research Services; RealPage, Inc.

Vacancy Way Below Trend in Knoxville



Knoxville A Rent Growth Rock Star



* Through 2Q
Sources: IPA Research Services; RealPage, Inc.

KNOXVILLE, TN

Among the markets examined for this analysis, today's hottest performer is Knoxville, home of the University of Tennessee. Vacancy is limited to 1.4 percent, and rents are rising at an annual pace of 23 percent to reach nearly \$1,300 per month. Viewed long term, normal vacancy here is roughly 4.5 percent, and typical yearly rent growth runs at a hair under 3 percent.

Ongoing conventional apartment construction in Knoxville totals 1,600 units, representing 3.1 percent near-term inventory growth for the existing base of 52,300 units. No additions are occurring this year to the off-campus purpose-built student housing stock that totals 10,300 beds.

Adding Johnson City and Chattanooga into the mix with Knoxville, apartment properties located along the eastern Tennessee corridor are performing stunningly well right now. Home to East Tennessee State University, with 13,000 students, Johnson City's college town market looks good for the moment, but it cannot match the longer-term solid track record seen for Knoxville.

WACO, TX

Perhaps a surprising choice on this list of college town markets, Waco, home to Baylor University, grabs the final spot. Waco doesn't have a great long-term performance history. Past average vacancy is comparatively high at roughly 6.0 percent, and typical rent growth of 2.6 percent annually is a little on the low side.

However, if the work-from-anywhere environment is here to stay, Waco's location halfway between Dallas and Austin — about an hour and a half drive from each city's downtown — changes the math. Future statistics could look more like today's solid numbers than the past's comparatively lackluster results. Midyear vacancy for the existing stock of 18,600 conventional units was limited to 2.6 percent, and monthly rents that average not quite \$1,100 per month are up 15 percent year-over-year.

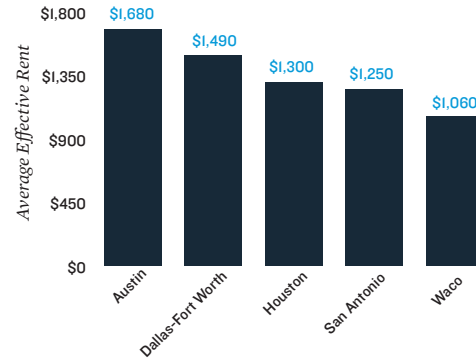
Boosting the appeal of Waco, purchase pricing of the local apartment stock has not yet caught fire. Recent sales prices have averaged a modest \$83,000 per door.

ADDITIONAL NOTEWORTHY METROS

Boise, Idaho (Boise State University), Spokane, Washington (Eastern Washington University and Gonzaga University) and Reno, Nevada (University of Nevada – Reno) all have performance metrics that clearly qualify them as hot markets. However, schools don't seem to be the key influences that have caused them to boom as of late. Also, there's a strong case to be made that these markets could be vulnerable to performance corrections in the near term.

Other spots that received top consideration for inclusion among the college markets with the most apartment investment appeal include Fayetteville, Arkansas (University of Arkansas) and Springfield, Missouri (Missouri State University). Average monthly rents that are substantially below the rates for other markets on the list hold back their bottom-line appeal.

Waco Boasts Rent Cost Advantage in Texas



Waco's Location a Major Benefit



* Through 2Q
Sources: IPA Research Services; RealPage, Inc.

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Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc; Moody's Analytics; Mortgage Bankers Association; National Association of Home Builders; National Association of Realtors; Real Capital Analytics; RealPage, Inc.; U.S. Census Bureau