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Real Estate Solutions by Moody's Analytics

ANALYSIS
SEPTEMBER 3, 2020

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# Higher Education, Student Housing, and the Local Community

## Why Effects from COVID-19 will extend well beyond Student Housing

### Introduction

As students begin another year of college, many are partaking in a learning style that they didn't sign up for (online), in a place they didn't want to be (home). As of August 28, more than 400 colleges and universities have announced a "primarily online" or "fully online" fall semester, with many institutions going a step further and requiring students, faculty, and staff to remain completely away from campus.[1] Even for colleges that have been committed to in-person instruction, many have had to backtrack and send students home or keep them in their dorms for an indefinite period.[2] Given the resilience of the coronavirus, growing infection rates on campuses that remain open,[3] and uncertainty in Washington DC, we expect that more and more higher educational institutions will have to reluctantly follow suit. The immediate demand-side shock to the student housing sector may be substantial, and spillover effects into the multifamily, retail, and lodging areas are quite probable. In this paper, we discuss the geography and magnitude of the coronavirus's impact on student housing and the broad commercial real estate (CRE) market. Combining up-to-date school policies and data regarding employment, enrollment, and space market outcomes, we find that while current stress is most apparent in California metros and other areas where colleges have moved completely online, cities such as New Haven, CT and Ithaca, NY, where higher education employment is vital to the local area, are primed to face the most severe economic and CRE consequences if campuses close for the fall semester or longer.

1 Davidson College. https://collegecrisis.shinyapps.io/dashboard/. August 25, 2020

2 University of North Carolina – Chapel Hill, NC State, Notre Dame have all moved to online for the fall semester after beginning on campus.

3 https://www.nytimes.com/interactive/2020/us/covid-college-cases-tracker.html?referringSource=articleShare

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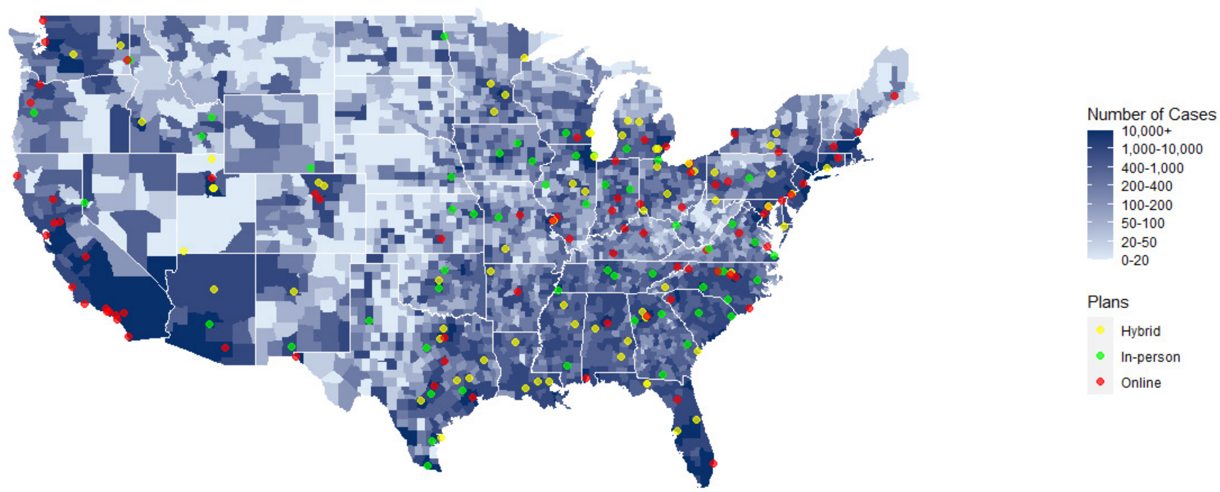
## Higher education and COVID-19

Figure 1 provides the latest available information on the level of COVID-19 cases and the instructional plans for the nearly 200 student housing markets tracked by Moody's Analytics REIS.[4] Given the company's criteria of reporting on institutions and markets where private student housing makes up a significant proportion of total housing, these markets are a good starting point for studying likely CRE stress related to COVID-19 and college policy.

The map distinguishes between primary/fully online, a hybrid model, and primarily/fully in-person instructional policies. A policy of fully online (all students off campus) or primarily online (that is, a particular class rank may be in-person) is problematic to student housing and the local economy due to fewer bodies on site, but many, likely lower-income students, will stay home to save money if given the choice. From a geographic perspective, online instruction is currently planned to be the primary mode for many schools in areas where the pandemic hit first, or the public response was early and/or substantial. Red dots, representing online instruction, are found largely on the US coastlines, but are spreading toward the middle of the country rapidly. The Northeast, which was the first area to feel the full strength of the coronavirus, and California, where California State system administrators were the first major governing body to move the fall semester online, have shown the most reluctance for in-person education. Within the last month, the South Atlantic and some locations in the Midwest, led by more recently hard-hit areas in North Carolina, Kentucky, and Ohio, have decided to move away from in-person education. In much of the South, the Plains states, and the Mountain West, policies are mixed, with some choosing a hybrid model (yellow) while others are still committed to in-person education (green).

Figure 1 COVID-19 cases and proposed school plans




*Source: Moody's Analytics REIS*

## Student housing

College policies are evolving quickly, and ultimately these policies will dictate the level of stress placed on student housing for a given market. To get a sense of the potential impact of moving instruction online, we can use the early decision of the California State system as a case study. In Figure 2, we illustrate the change in fall semester preleasing activity for the California markets from 2019 to 2020. If students or their parents are concerned that housing may not be necessary this fall, it is likely that many will forego preleasing and eliminate the complications involved with backing out of those agreements. As shown in Figure 2, every market is showing a significant pandemic-related decline.

[4] Research conducted by Moody's Analytics REIS using college websites and updates from The Chronicle of Higher Education and Davidson College's C2i Initiative

Figure 2 Student housing preleasing activity in California

(Q3 2019 vs. Q3 2020)

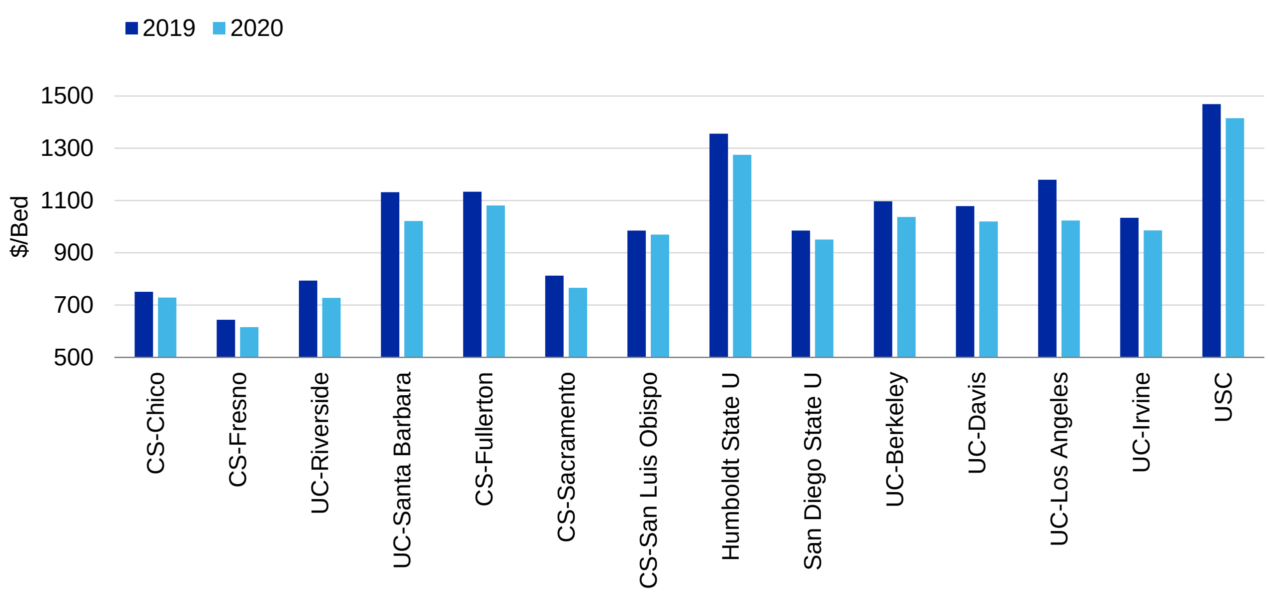
| UNIVERSITY NAME | 2019 Q3 | 2020 Q3 | DIFFERENCE |
|---|---|---|---|
| California State University-Chico | 97.30% | 78.30% | -19.00% |
| California State University-Fresno | 82.90% | 61.70% | -21.20% |
| University of California-Riverside | 77.60% | 58.60% | -19.00% |
| University of California-Santa Barbara | 85.90% | 78.20% | -7.70% |
| California State University-Fullerton | 86.00% | 67.50% | -18.50% |
| California State University-Sacramento | 82.20% | 60.30% | -21.90% |
| California Polytechnic State University-San Luis Obispo | 94.10% | 69.40% | -24.70% |
| Humboldt State University | 96.10% | 51.70% | -44.40% |
| San Diego State University | 86.00% | 75.80% | -10.20% |
| University of California-Berkeley | 94.30% | 55.20% | -39.10% |
| University of California-Davis | 96.40% | 83.20% | -13.20% |
| University of California-Los Angeles | 91.50% | 69.30% | -22.20% |
| University of California-Irvine | 84.70% | 73.80% | -10.90% |
| University of Southern California | 95.20% | 80.20% | -15.00% |

*Source: Moody's Analytics REIS*

How is our rent forecast responding to the lower activity? Figure 3 shows declines that range from 1.5% for California Polytechnic State University-San Luis Obispo to 13.2% for University of California-Los Angeles.

Figure 3 Student housing rent level in California

(Q3 2019 vs. Projected Q3 2020)




*Source: Moody's Analytics REIS*

Moody's Analytics REIS tracks preleasing across the country. Figure 4 illustrates the regional breakdown of year-over-year fall semester preleasing. The national average shows signings down 11% from 2019 to 2020, with the largest difference in the Northeast and West regions. But even these numbers may give a bit of false hope, as much of the signings happened before the dramatic rise in infections across much of the country.

Figure 4 Regional student housing preleasing activity

(Q3 2019 vs. Q3 2020)

| REGION | 2019Q2 | 2020Q2 | DIFFERENCE |
|---|---|---|---|
| Southwest | 80.1% | 70.1% | -10.0% |
| South Atlantic | 87.0% | 77.7% | -9.3% |
| West | 87.9% | 72.4% | -15.5% |
| Northeast | 90.2% | 77.2% | -13.0% |
| Midwest | 89.3% | 79.8% | -9.5% |
| *United States – National Average* | 87.3% | 76.4% | -10.9% |

*Source: Moody's Analytics REIS*

Given that colleges and universities are changing policies so rapidly it is difficult to pinpoint exactly where the most stress on the student housing sector will be, there is a concerning profile. Generally, fewer students will equal more stress, meaning that even a hybrid model is problematic in situations where students want to or can stay home. This is likely to be at schools that admit a high percentage of low-income students or international students. Further, this problem is compounded for student housing because these two groups also tend to live off campus at a higher rate than upper-income students. Additionally, more stress will be found in markets with public schools versus private. Public institutions often have a much higher percentage of students living off campus. A recent College Board study found that 47% of students at four-year public institutions live off campus, while that number is only 28% at four-year private institutions.

## Spillover effects

For many cities and towns across the United States, late summer invites the return of students, parents, and faculty—better known to local business as "revenue." Shops, restaurants, and hotels are often filled with families dropping off their young adults for another semester. Many of these parents return at least once a month to check in or pick students up for a long weekend, where they undoubtably go out to eat, or buy groceries and housing supplies. Additionally, faculty who also often spend summer away provide consistent revenues for eateries, cafes, and local shops. From a multifamily perspective, new faculty, visiting faculty, and guest lecturers are particularly important as they often need housing from anywhere from a week to three years.

In the last few decades, foreign students have become increasingly important to institutions and local communities. While the growth rate has slowed recently, the percentage of enrollment made up of non-domestic students is still rising[5] and these students often pay full tuition, spend locally (sometimes purchasing high-cost items such as automobiles), and often stay in off-campus housing.

Additionally, full-time and part-time campus service workers—such as those that work in food halls and dormitories—often live locally, with many housed in multifamily properties. Given that these are typically not high-paying jobs, any job loss (even temporary) will have an impact on the ability for those households to keep paying their rent.

To examine the CRE markets that may be most affected if campuses must close before or during the fall semester, we look to metro-level employment data for the education sector. Specifically, Figure 5 presents the 10 markets with the highest average rank of location quotient and employment level based on data provided US Cluster Mapping, a joint effort by Harvard Business School and the US Economic Development Administration.[6] This list is comprised mostly of mid-to-large "college towns," where multiple colleges employ workers vital to the fate of the local economy. These institutions also tend to pull students from beyond the local area.

[5] https://www.migrationpolicy.org/article/international-students-united-states-2017#EnrollmentTrends

[6] http://www.clustermapping.us/

Figure 5 Education sector employment statistics

| METROPOLITAN STATISTICAL AREA | LOCATION QUOTIENT | EMPLOYMENT | AVG. RANK |
|---|---|---|---|
| New Haven, CT | 7.4 | 31,405 | 1 |
| Ithaca, NY | 18.9 | 17,500 | 2 |
| South Bend, IN | 9.2 | 17,789 | 3 |
| Boston, MA | 3.2 | 130,743 | 4 |
| Rochester, NY | 4.4 | 27,778 | 5 |
| Provo, UT | 5.2 | 17,856 | 6 |
| Lynchburg, VA | 8.7 | 11,620 | 7 |
| Pittsburgh, PA | 3.0 | 48,011 | 8 |
| Springfield, MA | 6.2 | 14,362 | 9 |
| Trenton, NJ | 4.6 | 17,500 | 10 |

*Source: Moody's Analytics REIS*

Falling outside of the top-10 criteria for this list, other metros of concern include New York City, the metro with the greatest level of education sector employment, as well as Syracuse, NY; Milwaukee, WI; St. Louis, MO; Springfield, IL; Raleigh-Durham, NC; Seattle, WA; Charlottesville, VA; and Washington, DC, which either have a large number employed in education, a large college student presence, and/or a large foreign student presence.

## Extra-curriculars

Extra-curricular activities not only help broaden the college experience for students, but are often vital to a local economy, especially Division I sports programs. College football brings in around $100 million in revenue each year for the athletic departments of top programs. Beyond this staggering figure, fans, alumni, and parents of current students flock from all over the state and neighboring states five to six times a year for a weekend of partying and spending. Much of this money ends up in the pockets of local retailers, restaurants, and hotel establishments. If schools, or local governments, decided not to allow play this fall—and some already have (the Big 10 and PAC-12 have pushed their seasons to the spring)—local businesses will suffer. Hotels and restaurants will feel much of the pain, but once again, many of the workers at these establishments make a disproportionate share of their income on these weekends. If that dries up, so does their ability to pay rent.

If conferences and schools decide to push forward and play this fall, many will do it without fans or with fewer fans. The University of Texas-Austin, one of the top programs in the country, may try to reduce capacity in the stands to around 20,000, well below its maximum. Even then, experts warn of potential safety concerns. Dr. Mark Escott, Austin's interim public health authority, warns: "If the prevalence of disease on game day is similar to today, with 25,000 fans we can expect more than 100 of those fans to be COVID-19 positive…and then it multiplies."[7] Health is obviously the number-one priority, but even if no one gets sick from exposure during a game, 25% of the fans (with some stadiums reaching 100,000 capacity) would be a huge hit to the local economy.

We should also mention all of the other events that make a college and its local community interesting, such as weekly musical performances, guest speakers, plays, and an occasional conference or festival. These events often attract people from outside the local area. A guest speaker is almost always brought out to lunch or dinner, and visiting performers often spend the night in a hotel. A reduction in any of these events means less revenue for local businesses and greater stress on CRE.

## Mid- to long-term ramifications

Will online instruction gain a greater share of higher education in a post-pandemic world? The answer may be found as clarity emerges for two related questions. Is the quality of education online equal to, or approximately equal to, in-person education? Will students miss the lack of social interaction on a college campus? The answer to the former is very debatable and the natural experiment currently occurring will offer some answers as researchers dive into the data over the next couple of years. Liberal arts institutions pride themselves on the value of (sometimes unquantifiable) faculty-student interaction, which will be hard to replicate through online formats. A current study led by Richard Arum, dean of the School of Education at the University of California, Irvine, is attempting to better assess the differences between online and in-person value. The early data showed

[7] https://www.texastribune.org/2020/08/06/texas-football-coronavirus/

students are more likely to have additional responsibilities, and less likely to have quiet space as online learners, both leading to less engagement in academics.[8]

Social interaction is a different story and much less debatable. Many current and soon-to-be college students are children of those who got to live the "college experience" and reap its benefits. Many of these parents claim those days were the "best of their lives" and there is value beyond the degree. In addition to the social aspect, residential campus experience is also meant to help young adults gain maturity, independence, and social capital that only constant interaction with professors and classmates can create. As Michelle Cooper of the Institute for Higher Education Policy eludes to during a PBS News Hour interview, "That is [social capital] certainly something that we have seen many low-income students struggle with. If you are attending a community college, and you kind of go to school, and you go back home or you go to work, like, you don't know where to often go to, to establish those relationships with individuals who can help you get that leg up in employment."[9]

It is difficult to believe that parents who can afford it will not want their children to have the opportunity to be engaged and interactive with peers and professors. Even as recently as 2016, only 15% of all higher-education students were exclusively online, with many of this group being from lower-income households.[10] It is likely that the pandemic will shift more students to choosing an exclusively online education, but we believe this experience will not move the needle much, and it is certainly not the death of residential colleges. What is more probable is an increase in the 3 million-plus students who take some, but not all, classes online. A "good" online experience may show some students and families that an online class here or there, or maybe even the first year, may be worth it.

What about the financial health of higher education institutions? Will some colleges close their doors for good if the pandemic persists? Two points worth pondering. Many colleges in the United States do not offer financial aid to foreign students.[11] These students often must pay full tuition, a valuable proposition for schools without large endowments. If international students, which make up about 5% of total US enrollment,[12] can't or won't come to the United States due to health concerns, even for just a few years, this could create major financial hardship for some small schools that have made expanding their reach to this cohort a recent priority. Second, many schools were already on the cusp of failure due to demographic changes[13] and a general questioning of the value of higher education.[14] Boston area start-up Edmit reported that prior to the pandemic, 25% of the nearly 1,000 studied colleges were considered "low financial health" or a "near-term risk of depleting their net assets"; the company revised this percentage to nearly 40% given COVID-19.[15] As it is, in April of 2019 The Chronicle of Higher Education reported that just over 1,200 colleges and universities had permanently closed their doors between 2014 and 2018. While nearly 90% were for-profit business and technical schools that had come under intense scrutiny during the Obama administration, these schools still admit about 11% of the total student population in the United States. Additionally, the other 10% of closures consisted of a few non-profit institutions that had been in operation for over 100 years and typically enrolled more than 1,000 students at a time. If the pandemic persists, causing tuition and/or room and board revenues to decline, many schools will suffer and some will not have the endowments to survive. This is not only important to students, faculty, and staff, but as stated above, the cities and towns that rely on the colleges will suffer along with their commercial real estate.

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8 https://www-chronicle-com.proxy.wm.edu/article/dean-at-uc-irvine-seeks-to-solve-higher-eds-existential-crisis-with-data-lots-of-it/ & https://www.pbs.org/newshour/show/as-the-pandemic-upends-higher-education-is-residential-college-worth-the-cost

9 https://www.pbs.org/newshour/show/as-the-pandemic-upends-higher-education-is-residential-college-worth-the-cost

10 Babson Survey Research Group, 2018. https://www.onlinelearningsurvey.com/reports/gradeincrease.pdf

11 A 2017 study by US News found that 425 out of 1,293 colleges and universities surveyed do provide financial aid for foreign students. https://www.usnews.com/education/best-colleges/articles/international-students-at-us-colleges-infographic

12 https://www.migrationpolicy.org/article/international-students-united-states-2017#EnrollmentTrends

13 NCES has projected a 2.4% increase in college enrollment from 2018 -2028, with declines in the "rust belt" region, Appalachia, California, and New England. https://nces.ed.gov/

14 These and other topics were extensively discussed during a webinar delivered with Susan Fitzgerald of the Moody's Investor Services group. Replay link here: https://ma.moodys.com/2020_08_AMER_MCO_XLOB-REISSFG_StudentHousing_WEB_MAU12347_register.html

15 https://www.edmit.me/data/financialhealth

## Conclusion

Student housing is set to experience a complex and difficult fall semester. Rent payments will dry up in many locations where instruction has moved completely or mostly online. Stress will likely rise in areas with consistently high infection rates, in markets where schools admit lower-income and international students, and more generally, at public institutions that typically have more students living off campus. If the pandemic persists into 2021 and the spring semester is also mostly online, this could cause more structural changes to higher education. If students find that online classes are “good enough,” they may seek out this structure at a much greater rate than previously thought and accelerate the increasing share of online education. The ramifications of this type of change would be huge to institutions that rely on room and board and don’t have the ability to quickly adapt. Some of these schools will lose students, some may even have to close their doors permanently. Either situation will cause pain to the student housing sector and to the overall economy (including all of CRE) of the cities and towns these institutions call home.