



STUDENT HOUSING

The Canadian Student Housing Opportunity

Jamie Langer
June, 2024



Market Overview

The underserved student housing market is suffering from rental supply shortages caused by accelerated demand, creating a unique opportunity for investors. In 2023, Canada experienced a 29% increase in international students, with a large portion attending Ontario universities^[1]. Residence buildings located on campus and privately owned off-campus buildings provide about 155,000 beds representing only 16% of full-time student enrollments. Of this total, about 52,600 beds are located in off-campus privately owned buildings^[2].

Student Enrollments Across 2021-2023

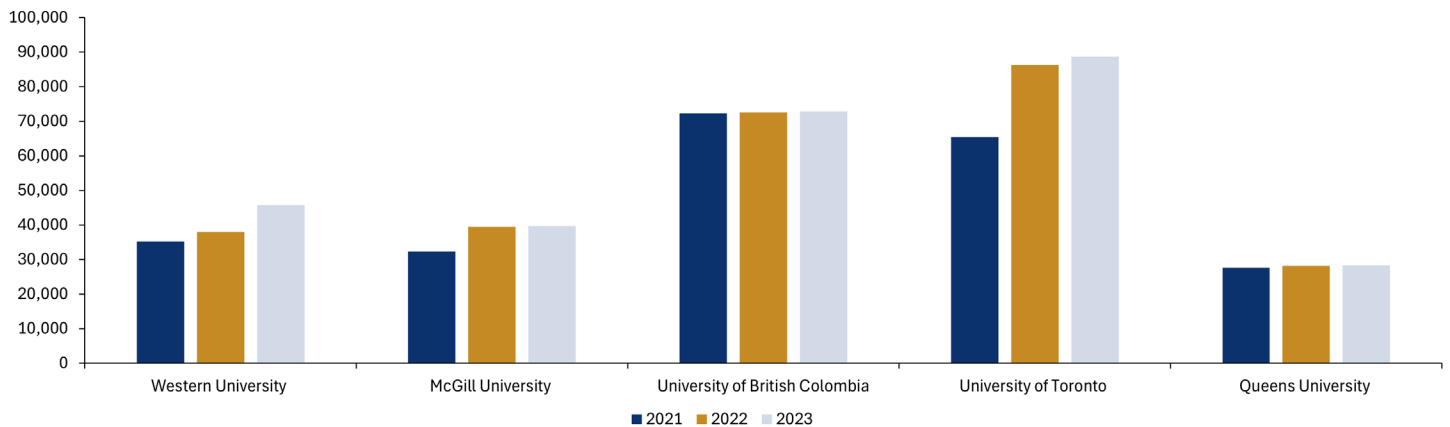


Figure 1: The plot demonstrates the trend in student enrollments over the past three years at various universities. Western University and University of Toronto have increasing enrollments, while McGill University, University of British Columbia, and Queen's University have experienced smaller margins^[3], which has implications for the student housing market. Universities may realize they can only accommodate additional students once future developments are completed, while private and institutional investors are capitalizing on the opportunity.

On-Campus Beds Availability

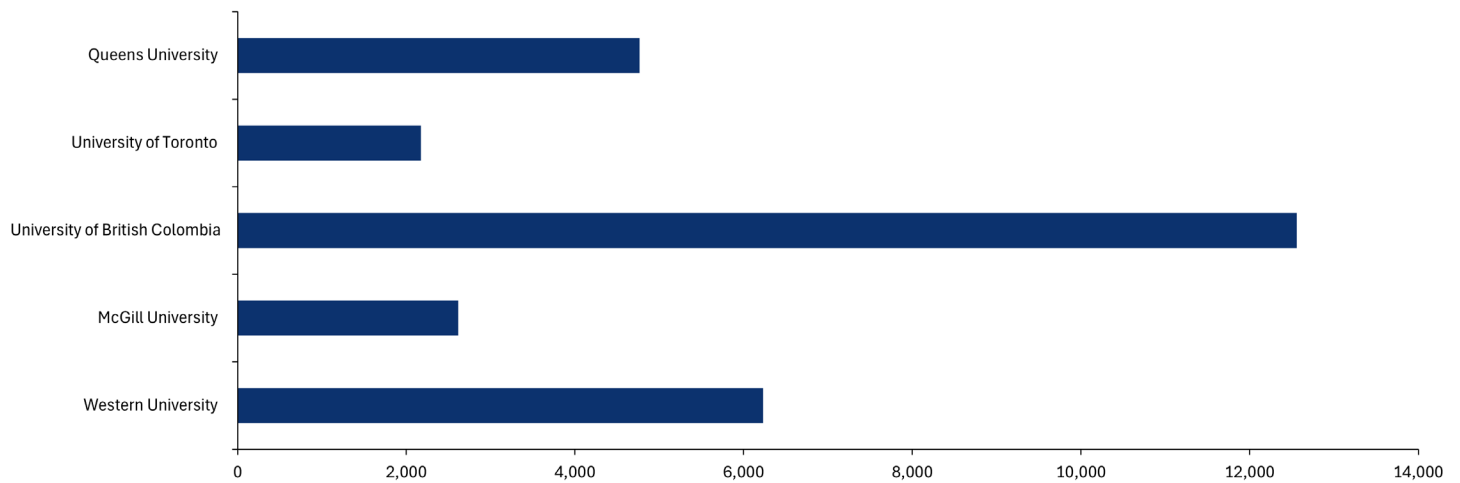


Figure 2: The plot demonstrates the quantity of available on-campus beds for students. Universities are undersupplied relative to their total student body, forcing many students to pay significantly higher rents off-campus. This creates a higher demand for on-campus purpose-built student housing^[4].

Development Trends & Pipeline

To combat the student housing crisis, developments are in the pipeline to work towards an equilibrium. In 2022, British Columbia, Ontario, Quebec, and Nova Scotia added around 5,800 beds, mainly in off-campus buildings. In 2018, the British Columbia government invested in a development that will include buildings to accommodate an additional 8,000 students. This project is expected to be completed in 2028 and will allow students to find housing stress-free and avoid the high student rental premiums^[5]. According to The Toronto Star, students pay 25% more for housing than the average Canadian renter^[6]. The University of British Columbia typically has a list of around 6,000 students hoping to be placed into student houses; they recently opened an additional 6,535 beds, with more on the way^[7].

Vancouver and Hamilton are both undergoing significant developments to manage the rise in student enrollment. Vancouver plans to increase student housing by around 30% and Hamilton by 15%. The University of Western Ontario, located in London, Ontario, is constructing two new residence buildings to accommodate 1,000 students, significantly boosting the supply^[8].

These are positive steps in the right direction to accommodate students. However, the large void between demand and supply for student housing still has yet to be addressed sufficiently. This indicates that this market will continue to outperform and provide strong returns to those investing in the sector.

Recent Developments and Transactions

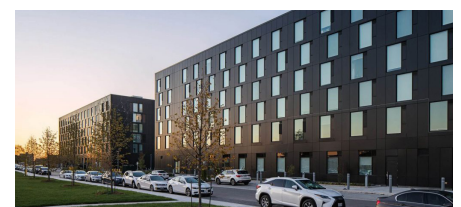
The Parkway Lofts

The Parkway Lofts, located at Brock University, is a recently completed project by Campus Suites and can accommodate 543 students. The Parkway Lofts offers 6 different unit configurations and sizes. It is equipped with high-end amenities and appliances. This residence also includes community space such as game rooms and study rooms.



The Quad

The Quad, located at York University in Toronto, Ontario, is currently undergoing its next phase of construction, Quad 2. This project offers 5 different unit types, adding 708 beds to the existing 812 beds from Phase 1. The Quad will offer great amenities, such as study lounges, cooking areas, and a fitness area.



Rental Trends and Returns

Short-term returns in the student housing sector are comparable to those of standard multi-family investments. Cushman Wakefield reports cap rates for 2024 multi-family at approximately 4.5%, consistent with Alignvest Student Housing REIT's analysis^[9].

In 2023, the student housing sector experienced an all-time low vacancy rate of 1.5%, suggesting that demand for affordable housing is apparent and undersupplied. Furthermore, the requirement that parents sign as guarantors on student leases diminishes collectability concerns. In addition, student housing tenants are enrolled for an average of four years, making the minimum turnover rate 25% compared to 13.6% for the standard market^[10]. This rapid turnover has allowed landlords to capitalize on consistently rising market rates.

Since most university students live with roommates, this creates an environment to realize higher prices per square foot, as rent is charged per bedroom instead of per unit. In turn, more opportunities for property owners and investors to increase their returns are created in the student housing sector.

Growth of Average Student Rental Costs

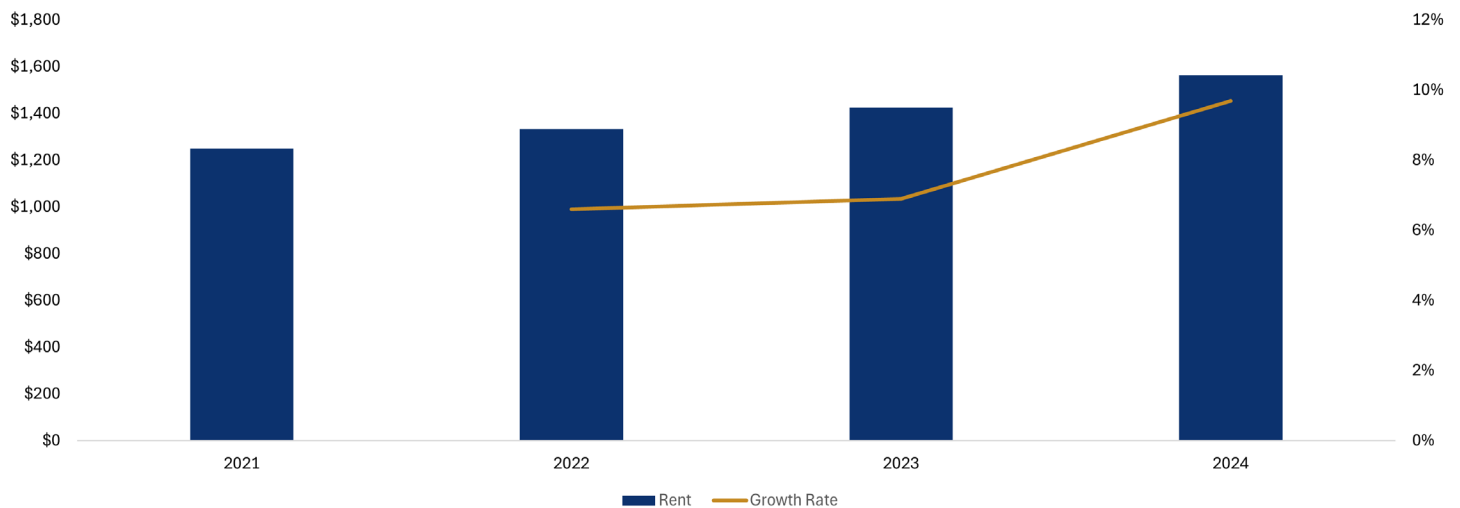


Figure 3: This plot demonstrates the average student rental costs over the past four years alongside the respective growth rate YoY^[11,12].

Conclusion

Overall, the shortage of rental supply coupled with high turnovers and low vacancies demonstrates that the student housing sector is experiencing dynamic market trends, creating prime opportunities for investors. Peakhill Capital is a leading commercial real estate asset manager and a CMHC-approved lender, who is active across all real estate asset classes. For more information on Peakhill's financing solutions, please contact info@peakhillcapital.com.



^[1] Canadian Bureau for International Education (CBIE) - International Students in Canada Infographic

^[2] CW Global - Canadian Student Housing Overview 2023

^[3] McGill University, McMaster University, Queen's University, University of British Columbia, University of Toronto, and Western University - 2021-2023 Enrollment Reports

^[4] McGill University, Queen's University, University of Toronto, and Western University - Residence Building Information Pages

^[5] Government of British Columbia

^[6] The Star, September 2022

^[7] CBC News, August 2019

^[8] Western University, August 2023

^[9] Alignvest Student Housing REIT

^[10] Canada Mortgage and Housing Corporation (CMHC)

^[11] Canada Mortgage and Housing Corporation (CMHC) - January 2023 Rental Market Report

^[12] University of British Columbia, University of Toronto, and Western University - 2023-2024 Student Rental Costs Reports