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KEYNOTE INTERVIEW

Student housing steadfast amid broader uncertainty

Economic and political upheaval are weighing on parts of the economy, but the purpose-built student accommodation sector at Power Four conference schools continues to thrive, says Kayne Anderson's Al Rabil

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Specialized housing proponents often tout purpose-built student accommodation (PBSA) as an all-weather strategy, one that will continue to perform regardless of broader economic conditions.

That assertion is being put to the test in 2025 as uncertainty hangs over the global economy. Al Rabil, chief executive officer of Kayne Anderson, explores how this murky macroeconomic outlook is impacting the US student housing market.

Q How has the current macroeconomic and geopolitical uncertainty impacted the outlook on student housing?

To be clear, uncertainty and current funding dynamics have impacted some parts of student housing in general. However, the portion of student housing in which we invest at Kayne Anderson, which serves the Power Four conferences and other similar schools, has not been impacted. Rather, they have seen record applications and enrollment growth because they are the best value proposition available, particularly for in-state students.

Q Is that what helps insulate your investment strategy from fluctuations in college admissions numbers?

Of the 5,500 universities in the US, we are interested in only a very small fraction, specifically the large public state universities. The second- or third-tier universities around the country are losing enrollment right now. I think that will escalate going forward for a number of reasons, including remote learning dynamics and competition.

But overall, enrollment fluctuations

are somewhat irrelevant at the top-tier public universities because most of them are in states with outsized migration and where they cannot satisfy the in-state demand. I'm not being cavalier about that; there is just so much more demand at these universities than available supply of PBSA, and there really is no end in sight.

There are some challenges with higher education to be sure, but the large public universities that have brand name recognition, purely from a student housing perspective, are not being negatively impacted.

There are similar dynamics in medical office and seniors housing. In these verticals, there is not just inelastic demand, but growing demand dynamics. These subsectors are not highly correlated to the macroeconomy, so they outperform during good times, and then they dramatically outperform during times of dislocation – and I would call this one of those times.

Q Is new supply keeping up with that demand?

We have seen new supply creation drop off between 30 and 70 percent depending on the university market, and that was pre-tariffs. So, we expect it to fall even further.

We are at an inflection point with massively escalating demand over the next 20 years, and at the same time we are seeing massively reduced new supply. A demand-supply balance would require a significant rebound in lending and new construction projects, so it is hard to envision that happening any time soon. That bodes extremely well from an investment perspective.

Still, the most important determinant of return is your cost basis. You cannot go out, throw a dart, buy anything and expect the return to be great. You have to buy right. But the opportunity is there for a limited number of players, particularly those who have built relationships, become known as certainty-of-close buyers and sellers and those that enjoy unfettered access to both equity and debt capital. The ranks of those players have shrunk dramatically, even though there is a rotation of capital into alternatives.

Q What does the availability of credit to student housing strategies look like today?

That is an issue for some in the space. Credit conditions began to loosen at the end of last year into the beginning of this year, until the tariff dialog took over. Now we have seen it tighten up again. Delinquent loans on bank balance sheets are at the highest point that they've been at since 2020. There are many factors that would lead one to believe that credit is going to be constrained for a material amount of time. That will ebb and flow, but debt at levels that people need in this space is not readily available to everybody.

Access to debt capital is probably as big a differentiating factor as access to equity capital, especially in a dislocated market. And not just access, but access to it in an efficient manner. It is a far more robust buying environment for those that have the access.

"In a few years, we will likely see a lower interest rate environment with more interest in alternatives"

Q Why has competition dropped off in the student housing space?

It started with the rapid interest rate increases two years ago and it has been exacerbated by recent events. We are seeing a relatively illiquid credit environment, which is following the very challenging fundraising environment from 2023 and 2024. That started to ease at the end of last year and the beginning of this year, but it is now challenging once again because no one knows what is going to happen tomorrow. Where is the stock market going? What does "normal" look like now? All these questions create uncertainty.

Development projects are extremely difficult today because you have no pricing certainty. It is very difficult to get a loan. The reality for some owners is that assets bought or built between 2017 and 2022 either have debt caps or swaps expiring, meaning renewals must be done at lower values and with a much higher interest rate. That forces some tough decisions.

A lot of players in late 2023 adopted the mantra "survive until '25." Well, now we are in '25, and it is a higher-for-longer interest rate environment. They cannot kick the can down the road indefinitely.

Q Is this creating opportunities in the sector?

That is precisely where the opportunity has been created. Some sellers are highly motivated because of redemption queues and LP pressure. Some sellers are forced because of interest rate dynamics or liquidity constraints. Some are even distressed depending on their specific circumstances. All those things create a great environment for premier assets because the assets themselves are performing extremely well, but the owner may be suffering from some distress or duress due to external circumstances.

With that opportunity, we are leaning in. We were circumspect about interest rates and peak pricing during the latter part of 2020 and particularly during 2021 and 2022, when there were massive, continuous infusions of capital into the financial system, very low interest rates and what we deemed to be unsustainable pricing. We have invested a significant amount of capital during the last two and a half years, and do not see velocity slowing down. We think there will be a continued buying opportunity next year, but it's not like picking nickels up off the street; it still requires discipline and experience.

"Just because there is a significant buying opportunity for us out there, that does not mean that there is not a selling opportunity as well"

"Enrollment fluctuations are somewhat irrelevant at the top-tier public universities"

Even though there will be incremental competition, I think a lot of those new players will be buyers from us and create a broader, deeper buyer base over the next 10 years.

In a few years, we will likely see a lower interest rate environment with more interest in alternatives, so there is an outsized buying opportunity for the select few players who can transact right now, but there is also going to be an outsized selling opportunity in the short to mid-term as more capital flows into this asset class.

Q When will opportunities to exit return?

While we are not market timers, we expect to sell a significant number of assets this year, the next year and likely the year after that. There is no pressure on us to sell, so that is somewhat price dependent.

Just because there is a significant buying opportunity for us out there, that does not mean that there is not a selling opportunity as well.

You do have sovereign wealth funds and large pension plans that take a longer-term view and understand some of the dynamics that support the student housing sector. They are generally not market timers either, meaning that they are not waiting on the sideline – they are looking at this demand-supply imbalance in PBSA becoming more exacerbated and could look to buy premier assets at an appropriate price.

More specifically, things that we are buying today, we would anticipate selling in the two- to four-year timeframe.

Institutional buying may be limited by allocation targets, and we have started to hear about the denominator effect again. But the reality for pension plans, sovereign wealth funds and large institutional allocators is that they cannot sit in cash for very long, and while investments can be muted for a period, these institutions will need to put money to work and are likely now underallocated to real estate.

We still see allocations happening and significant interest in alternatives that heretofore has not existed. I do not think this is a fleeting dynamic; we are in the early innings of a long-term rotation into alternatives. ■