

MEMORANDUM

To: City of Austin Staff
From: Heidi Aggeler
Re: College student effect on rental housing prices

The City of Austin is home to many institutions of higher education. The largest by far is the University of Texas at Austin (UT-Austin), with more than 50,000 students (40,800 undergraduates and 11,000 graduate students). Although Austin Community College (ACC) has a larger student body overall (60,000 students), these students are spread among 11 campuses in the Central Texas region and enrolled in online courses.

As rental housing affordability and displacement of low-income renter households has become a greater concern in the City of Austin, it is natural to question how college students affect the availability and pricing of rental units. The purpose of this memorandum is to inform that policy discussion by evaluating how the college student population affects rental prices in the City of Austin. This memo provides market data on student-serving versus non-student serving rental units, examines geographic changes in rental prices near UT-Austin, and adjusts the 2019 rental gaps for full time students.

Primary Findings

- 1) Students occupy between 9% and 13% of all rental units in the City of Austin. Of these, about four percent are student-specific rental developments.¹ Therefore, an estimated five to nine percent of the city's non-student specific rentals are occupied by students.
- 2) Student-specific developments are much more likely to contain 3+ bedrooms, and carry higher rents, than non-student rental developments. It appears that multifamily developers gear larger units to student occupants through amenities, design, and rent strategies (i.e., rent by the room). In a comparable market without a large student population, larger units could be more intentionally geared toward families and may be relatively more affordable. City

¹ Throughout this memo, "student specific development" indicates a development Identified as "student specific" by Austin Investor Interests using rent-by-the room as a definition.

- policy incentives to produce larger units for families could require family-friendly amenities to discourage occupancy by student households.
- 3) Student-specific rentals are much more expensive than conventional rentals; the price per square foot for student rentals is 1.5 times higher than non-student rentals. This may be due to higher-level amenities in student-specific housing, as well as the location of student housing near UT-Austin and downtown Austin. Student-specific housing is also likely priced to take advantage of the higher per-household member contribution toward rent.
 - 4) The most identifiable effect of student occupied residences on the city's rental market is the increase of rents in UT-Austin adjacent zip codes that were once affordable. Zip code 78722, northeast of UT-Austin and east of I-35 saw rents increase by 38% between 2012 and 2017, compared to 22% for the city overall. Similarly, zip code 78751, directly north of UT-Austin, saw rents increase by 39%. In contrast, downtown rents and the rents within UT-Austin's zip code increased less than the city overall. These trends suggest that students seeking more affordable rents may have expanded their presence in these zip codes. These increased rents are also indicative of the value that non-students and students place on neighborhoods with amenities that appeal to younger adults (e.g., restaurants, night life, etc.).
 - 5) An analysis of 2012-2017 Census survey records determined that 19% of renter households earning less than \$25,000 per year were student households (students living alone or with other students); this equals about 9,100 households. Another five percent were living with non-student roommates, or 2,300 households. Just one percent of the less than \$25,000 renter households were made up of students living with parents. In all, 24% of the less than \$25,000 renter households are students—about 11,500 renter households. This is consistent with the 2009 Comprehensive Housing Market study, which estimated the proportion at 25%.

Student demand for housing. According to UT-Austin, more than 85% of students live off campus. The university does not require that students live on campus at any point during their education, as the university is unable to house even incoming freshman with on campus housing.

Existing residence halls (dorms) accommodate about 7,000 students on campus. University Apartments, with an estimated 1,500 units, provide on-campus housing for families, graduate students, and some undergraduates. Students can live in these apartments for up to seven years. According to the university, these apartments have a wait list of about 1,000 households with students.

Accounting for this on-campus housing, we estimate that approximately 42,500 students live off campus.² With an average household size of 2.3 (the average size of renter households in Austin), students could occupy as many as 18,500 rental units in Austin—or about nine percent of all rental units. At a smaller household size—1.5 persons per unit—students would occupy 13% of all rental units.

According to data from Apartment Trends by Austin Investor Interests, student-specific rentals account for about four percent of all large (50+ units) market-rate apartments in the City of Austin. The balance, between five and nine percent, are provided by the private sector (i.e., market-rate).

Student-specific rental pricing. Figure 1 compares prices and characteristics of conventional and student-specific apartments in Austin. Student housing developments have higher average rents than conventional developments even after accounting for the larger average size of student rentals: \$2.29 average rent per square foot for student rentals compared to \$1.53 per square foot for conventional.

In addition to being more expensive, student apartments also tend to be larger and have more bedrooms than conventional apartments. Nearly half of all student apartments have three or more bedrooms, compared to just 4 percent of conventional apartments.

Figure 1. Pricing of Conventional (non-student) and Student-serving Apartments, 2019

Note:

Student apartments are defined by Austin Investors Interests as rent-by-the room developments.

Source:

ApartmentTrends.com by Austin Investor Interests and Root Policy Research.

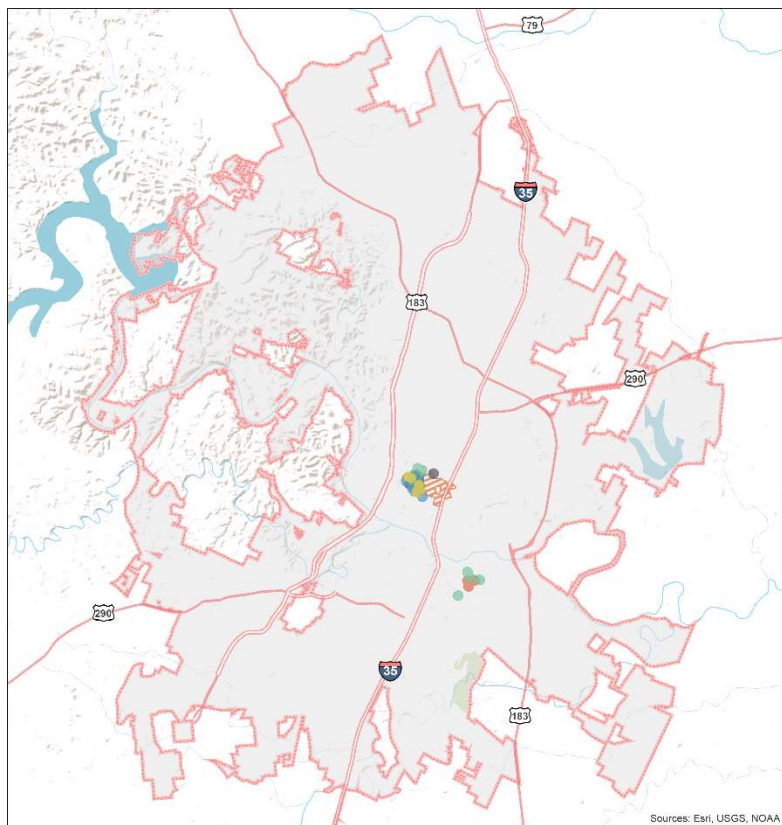
	Conventional Apartments	Student Apartments
Number of Units	153,956	6,638
Average Rent per Unit	\$1,300	\$2,347
Average Rent per Sq Ft	\$1.53	\$2.29
Average Size of Units (Sq Ft)	851	1,023
% of units that are 3+ bedrooms	4%	49%
% change in rent 2013 to 2018	25%	24%

As shown in the map on the following page (Figure 2), purpose built-student housing has remained in the same two areas regardless of when built.

The relatively low proportion of conventional apartments with three or more bedrooms (just four percent) indicates it may be difficult for families with children to find available rentals in the area. Larger units that are being developed appear to be geared to student occupancy and carry rents that are far higher than what a low, and even moderate, income family could afford.

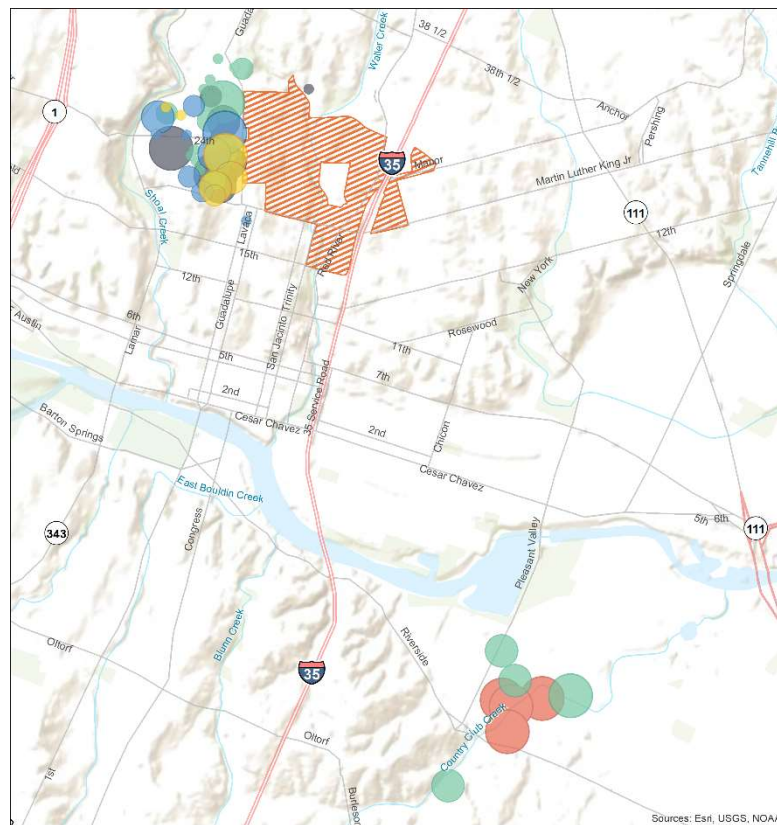
² This assumes that, of the 51,800 students, 7,000 live on campus in residence halls, and 2,250 live in University Apartments (average of 1.5 students per unit).

Figure 2.
Purpose Built Student Apartments by Year Built (Citywide and Urban Center), 2019



Purpose-Built Student Apartments by Year Built

- Pipeline/Future
- Built between 2015-2019 Q1
- Built between 2010-2014
- Built between 2000-2009
- Built between 1980-1999
- ▨ University of Texas
- ▭ Austin City Boundary



Purpose-Built Student Apartments by Year Built

- Pipeline/Future
- Built between 2015-2019 Q1
- Built between 2010-2014
- Built between 2000-2009
- Built between 1980-1999
- Less than 100 units
- 100 - 149 units
- 150 - 199 units
- 200 units or more
- ▨ University of Texas
- ▭ Austin City Boundary

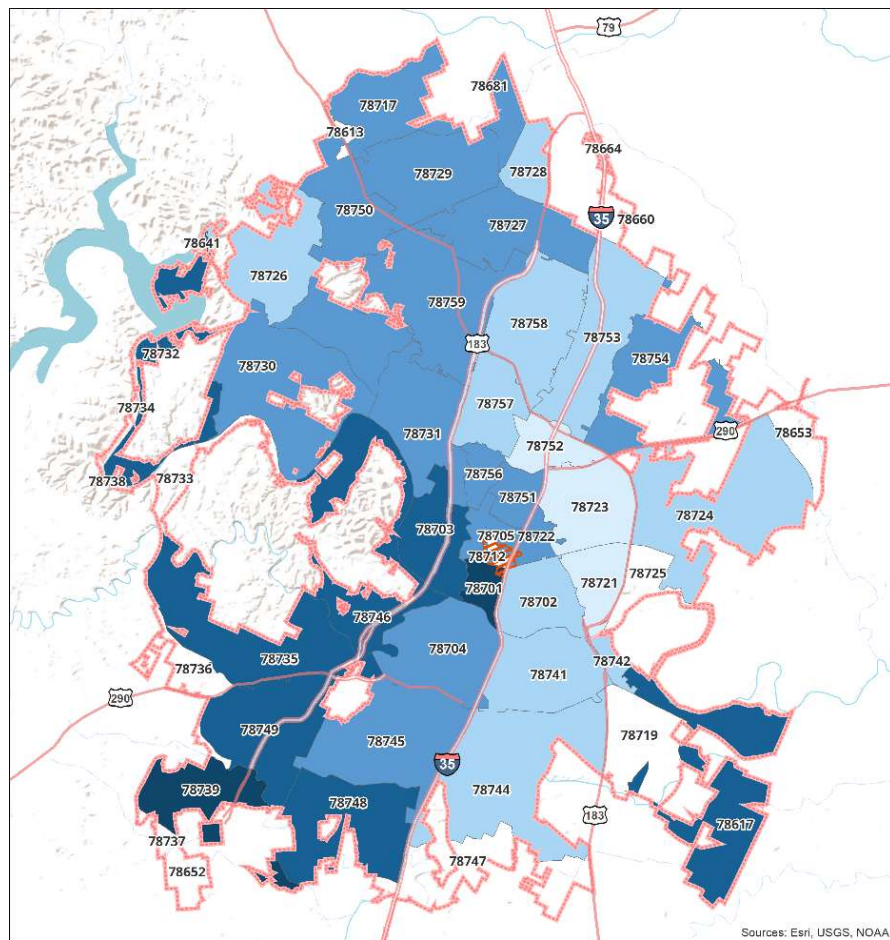
Source: ApartmentTrends.com by Austin Investor Interests and Root Policy Research.

High-priced rentals and UT-Austin. As shown in the map below (Figure 3), the zip code due south of UT-Austin is the highest priced in the city, which is largely due to rents in the city's downtown district. In general, the zip codes around UT-Austin carry moderate- to high median rents and are similar to rents in the high-income areas of West Austin.

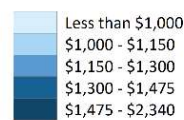
Notable is zip code 78722, northeast of UT-Austin. This is the only zip code adjacent to I-35 with a median rent in the moderate range. All other zip codes in the area have very low to low rents, including the zip code directly east of downtown Austin. Rising rents do not appear to be related to new construction: this zip code has experienced modest household growth since 2012, mostly in owner households (net increase of 172 households) rather than renter households (increase of 27 households).

Figure 3.
Median Rent by
Zip
Code

Source:
2017 ACS.



Median Rent by ZIP Code, 2017



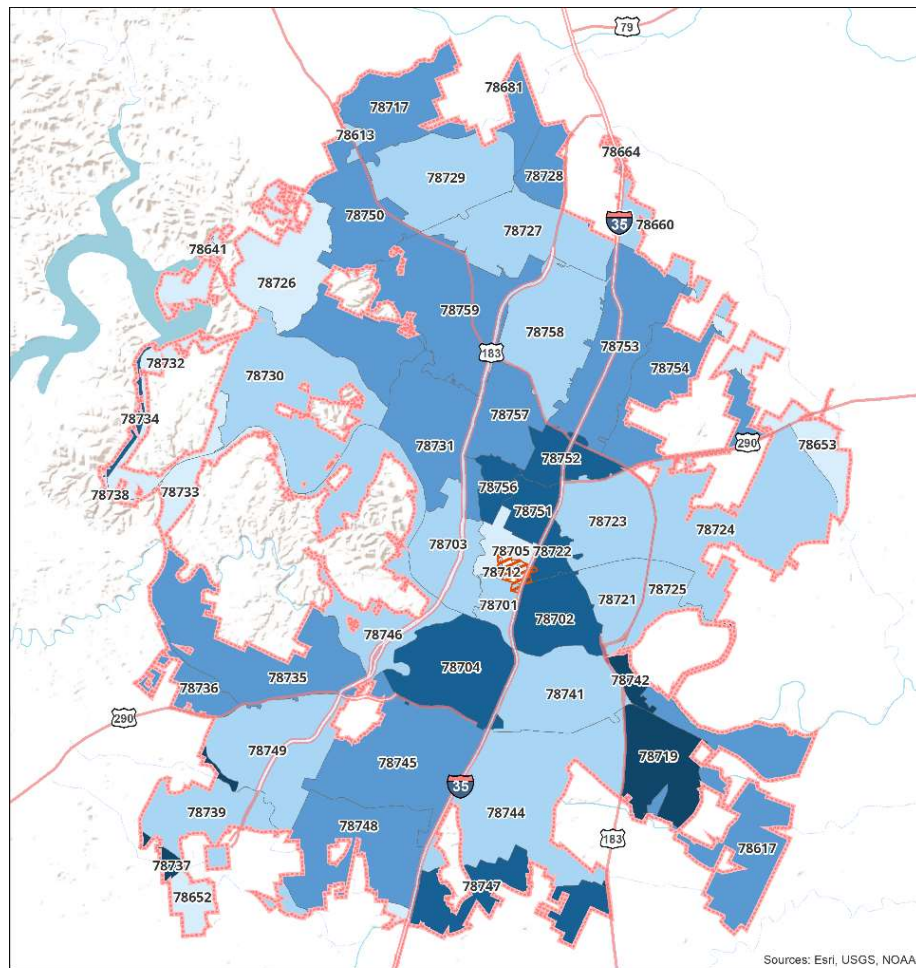
Increases in rents between 2012 and 2017 suggest that students may have affected increases in zip codes north and northeast of UT-Austin, likely in reaction to the rising prices in downtown Austin and the UT area spurred by a growing tech economy.

Zip code 78722, northeast of UT-Austin and east of I-35, saw average rents increase by 38% between 2012 and 2017, compared to 22% for the city overall, based on Apartment Investor Interests data. Yet this area's rents are still affordable at an average of \$1,378 for a 2-bedroom unit. Similarly, zip code 78751, directly north of UT-Austin, saw rents increase by 39% (average 2-bedroom rent of \$1,641). In contrast, downtown rents and the rents within UT-Austin's zip code increased less than the city overall, at 16% and 10%, respectively.

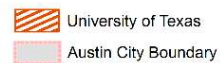
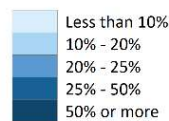
Figure 4 shows the change in median rents, based on ACS data, between 2012 and 2017. Other than in parts of southeast and south Austin, the Census tracts near UT-Austin experienced the largest price increases.

Figure 4. Increase in Median Rent by Zip code, 2012-2017

Source: 2012 and 2017 ACS.



Percent Change in Median Rent by ZIP Code, 2012-2017



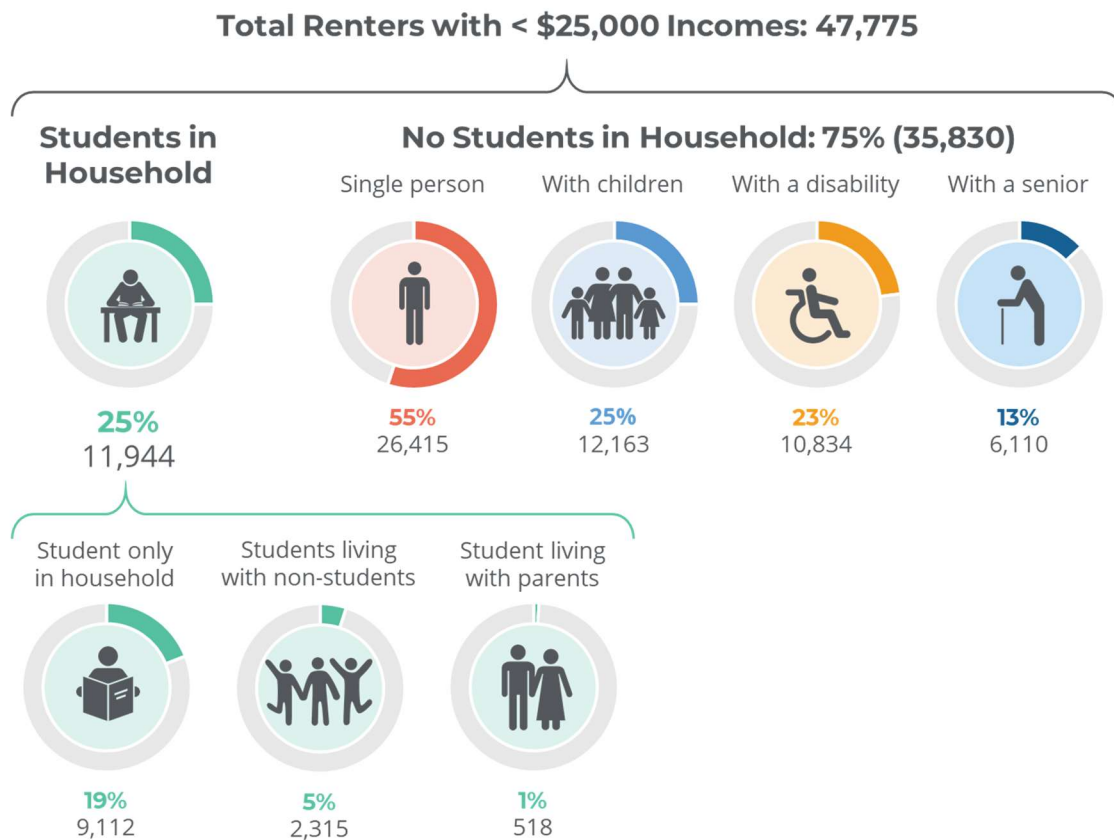
Student-adjusted rental gap. An updated comparison of rental needs by income range for the 2019 Housing Market Analysis found a shortage of 36,400 affordable rental units for renters earning less than \$25,000 per year (including students).

An analysis of 2012-2017 American Community Survey records determined that 19% (or about 9,100 households) of renter households earning less than \$25,000 per year were student households (students living alone or with other students). Another five percent (2,300 households) were living with non-student roommates. Just one percent of the less than \$25,000 renter households were made up of students living with parents. In all, 24% (or about 11,500 renter households) of the less than \$25,000 renter households are

student renter households. This is consistent with the City of Austin 2009 Comprehensive Housing Market study, which estimated the proportion at 25%.

Figure 5 demonstrates how student are represented in less than \$25,000 households based on the above analysis.

Figure 5.
Student Representation in All Renter Households with <\$25,000 Incomes, 2012-2017



Source: 2017 Public Use Microsample data.

It is logical to adjust the city’s rental gap to account for students under the theory that students’ housing needs are temporary and, relative to other types of low-income households, students have more resources to manage housing costs (student loans, parent and guardian support, scholarships, institutional housing options such as university-provided housing).

As such, the city’s current rental gap is adjusted for students to capture two scenarios:

- 1) Students earning less than \$25,000 per year have no need to reduce their rental payment, even though they are classified as low income. We assume these students

can manage a higher rent payment than the gaps would suggest because they are drawing on student loans, savings, and/or contributions from family members.

- 2) Half of the students in the less than \$25,000 income range (12% of all households earning less than \$25,000) do not need to reduce their rental payment and are able to manage higher rents than the model suggests they can afford. The other half cannot manage higher rents than the model suggests. This version of the gaps reduction assumes that half of the students in the less than \$25,000 income category are in need of housing units renting for less than \$625 per month.

Both scenario adjustments place student households into a higher rental price bracket in which the city's rental units are primarily clustered: non-subsidized units renting between \$875 and \$1,250.

With these adjustments, the student adjusted rental gap ranges from 25,000 units for renters earning less than \$25,000 per year (scenario 1) to 30,600 (scenario 2) to 36,400 (unadjusted gap).

Students and rental amenities. Students affect the rental market in many ways, other than creating demand. They also influence unit pricing in unique ways:

- Students commonly have additional support (parent or guardian) to pay rent. When parents are contributing to the rent payment, they may expect amenity-rich units (security, onsite gym, onsite laundry facilities) that carry higher rents. Recent rental construction in the City of Austin appears to be responding to increased demand for such units: student-oriented apartments have a much higher price per square foot than conventional apartments;
- Students may be perceived by the private sector as higher-risk renters, which is factored into rental pricing; and
- Students are frequent movers, which allow property owners to more frequently raise rental prices in response to the wear and tear and transactional costs of tenant moves.

In sum, this memo showcases differences in student-serving versus non-student serving rental units, highlights the student impact on pricing and demand, particularly near UT-Austin, and adjusts the 2019 rental gaps for full time students.