



Department Source: City Manager  
To: City Council  
From: City Manager & Staff  
Council Meeting Date: November 21, 2016  
Re: Report: Student Housing Vacancy and Trends

## Executive Summary

This report examines Columbia's overall rental housing market and student housing rental market. Council has expressed concern that the growth of student housing developments may be expanding into a bubble. The potential effects of hundreds of student specific beds becoming available downtown certainly merit investigation. This report examines vacancy rates, student enrollment, student living preferences, and input from local stakeholders. There is insufficient data to recommend any housing policies in regards to student housing. Segmented vacancy data for Columbia's rental market is not available for enough past years to determine any trends. Staff will continue to monitor rental market indicators and work with other stakeholders to analyze the market.

## Discussion

The City's core forecasting and planning reports (Ten Year Trend Manual and the Comprehensive Plan) show a trend for continued population growth and a need for new housing stock. The Show-Me and CATSO growth models (Columbia Imagined, pg. 114-115) predict a need for 11,486 (Show-Me) and 16,363 (CATSO) new housing units by 2020. It is difficult to determine what type of housing will and should be built to accommodate population growth, but some current trends in the City's housing market give insight. Columbia has maintained an approximate 51% renter-occupied housing rate for the last 5 years (American Community Survey 2010-2014) and considering Columbia's large student population, growing young professional population (25-35), and stagnant Median Home Income (Ten Year Trend Manual FY 2006 - FY 2015) it seems safe to assume that about half of the new housing units required to accommodate growth will be rental.

What will those future rental properties be, student housing, low-income housing, lofts, multi-family? There are definitely known housing stock deficiencies in Columbia. There is a clear and ongoing need for more quality affordable housing, more quality accessible housing, and housing with greater energy efficiency. These deficiencies apply to Columbia's rental market as well and have been studied and documented in numerous reports, plans, research, and public input sessions.

The student housing segment of the rental market has been of particular public interest. Coupled with the University of Missouri's drop in freshman enrollment for Fall 2016 this interest has led to concerns about a student housing bubble. This concern also exists nationwide and is tied to the fears of a student debt bubble. Despite public concerns, national and regional real estate organizations continue to see student housing as an attractive market.



## **Vacancy Data**

The vacancy rate is the percent of rental units for a given market at any given time that are unoccupied or vacant. Vacancies occur when landlords are unable to rent all available units, when landlords are unwilling to lower rental rates to fill all units, and when landlords choose to keep a certain percent of units vacant. Landlords strive to keep their vacancy rates low, but a low vacancy rate can also be an indication that they are not charging enough rent. The ideal vacancy rate for a landlord will vary from market to market and even from property to property. While markets with low vacancy rates indicate a good market for landlords, they also mean higher rents for potential lessors. Knowing a market's vacancy rate is not particularly useful unless it is compared to what would be considered a healthy vacancy rate for the market, or a natural vacancy rate.

The natural vacancy rate is a hypothetical state of equilibrium in the rental market at which rents will not go up or down from year to year or month to month. If the vacancy rate rises above the equilibrium, rents will go down. If the rate goes below the equilibrium, rent will go up. There are numerous theories and formulas for calculating a market's natural vacancy rate. Like many measures in economics the natural vacancy rate will vary across time, markets, sub-markets, and geography.

Calculating a natural vacancy rate, even using the simplest formulas, requires a dataset with years of rental rates and vacancy rates. Vacancy rates for Columbia's rental market are given below from the American Community Survey, Moore & Shryock, and the University of Missouri Off-Campus Student Services and City of Columbia Student Housing Survey. There is insufficient data to make any recommendations in regards to actions or policies that would impact the supply, location, and/or type of student housing. Making decisions using vacancy and other rental market indicator data requires years of data, often quarterly data, to see trends and calculate a natural vacancy rate.

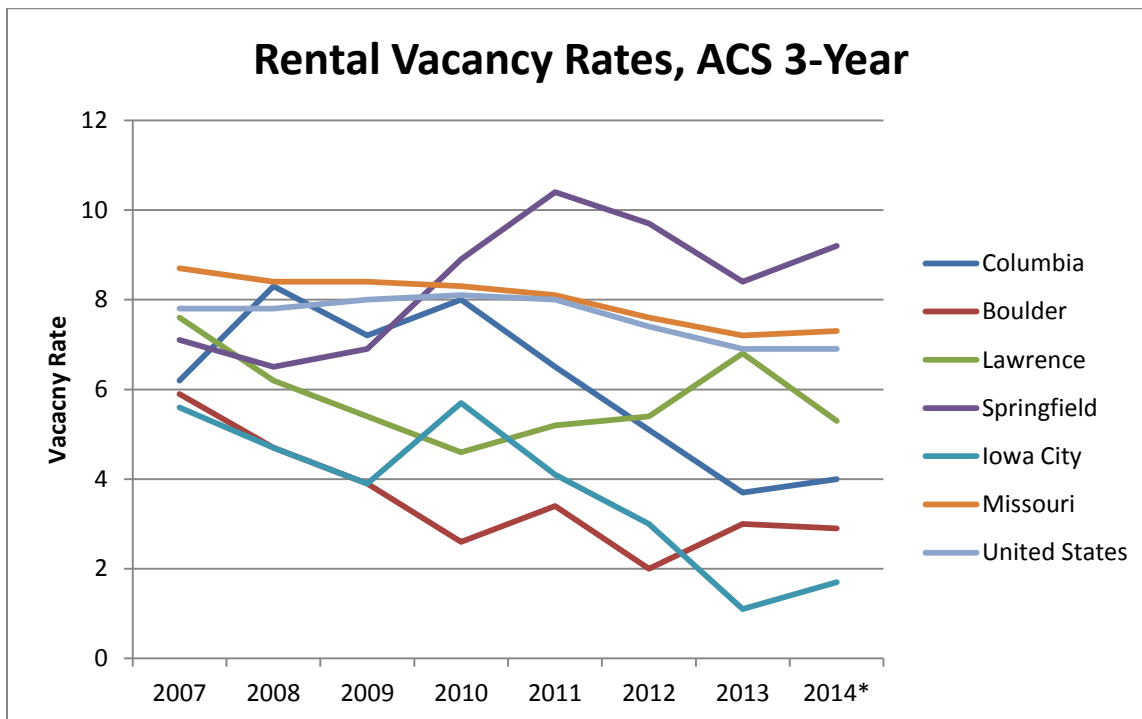
## **American Community Survey**

The Census Bureau's American Community Survey has estimated annual statistics for states, counties, and cities since 2005. 3-year rolling average estimates are available following the 2007 ACS and are used here to report Columbia's overall estimated rental vacancy rate, as well as, data from Missouri, United States, and select cities. Columbia's rental vacancy rate has declined steadily since 2010 mirroring the trend seen in the state and country. Each 3-year estimate is pulled the ACS 1-year estimate. The 2015 ACS annual rental vacancy rate estimate for Columbia is 1.7%. This will pull the 3 year estimate downwards for 2015 and likely for 2016 too. While there is insufficient data to calculate a natural vacancy rate, considering that Columbia's population increased approximately 16% between 2007 and 2015 it seems that supply of rental units in Columbia is not keeping pace. Median rents for Columbia have increased steadily since 2007. Despite the inability to calculate a natural vacancy rate, an argument could be made that Columbia is a seller's' market for rental property. Dropping vacancy rates and rental rate increases each year indicate a market that may disadvantage renters.



Rental Vacancy Rates, ACS 3-Year							
Year	Columbia	Boulder	Lawrence	Springfield	Iowa City	Missouri	United States
2007	6.2	5.9	7.6	7.1	5.6	8.7	7.8
2008	8.3	4.7	6.2	6.5	4.7	8.4	7.8
2009	7.2	3.9	5.4	6.9	3.9	8.4	8
2010	8	2.6	4.6	8.9	5.7	8.3	8.1
2011	6.5	3.4	5.2	10.4	4.1	8.1	8
2012	5.1	2	5.4	9.7	3	7.6	7.4
2013	3.7	3	6.8	8.4	1.1	7.2	6.9
<b>2014*</b>	4	2.9	5.3	9.2	1.7	7.3	6.9

\*ACS moved to only reporting 5 year estimates





## Median Rent and Increase for Columbia - ACS 3-Year

Year	Median Rent	% Increase from Previous Year
2007	681	
2008	715	4.99%
2009	736	2.94%
2010	747	1.49%
2011	774	3.61%
2012	777	0.39%
2013	785	1.03%
<b>2014*</b>	804	2.42%

\*ACS moved to only reporting 5 year estimates

## Moore & Shryock

Moore & Shryock Real Estate Appraisers and Consultants have conducted an Apartment Survey for Columbia every 2 years since 1985. Moore & Shryock began segmenting data in 2015 to include Conventional Units, Downtown Student Units, and Off-Campus Student Units (any student complex outside of the Downtown boundary). It is important to note that vacancy rates were collected from larger housing and apartment complexes willing to participate in the survey. The survey respondents for 2015 represent approximately 32% of the 26,727 registered rental units in Columbia. The possible effect of self-reporting from large and professionally managed units may account for the difference between the Moore & Shryock and ACS estimated vacancy rates for all units. The segmentation for 2015 reveals low vacancy rates for downtown student units and conventional units (2.80% and 2.01%) and a higher rate for off-campus student units (13.97%). Without historical segmented data it is not possible to determine if recent downtown student unit construction has increased off-campus student unit vacancy rates or if 14% is a normal vacancy rate for these units.

Please read the attached Moore & Shryock Report (Attachment 1) for additional information about how their data was collected and its limitations.

## University of Missouri Off-Campus Student Services and City of Columbia Student Housing Survey.

A joint University and City survey was administered online to a group of 45 student housing complexes during the first week of October, 2016. Follow up calls were made during the second week of October. 25 of 45 complexes participated. The survey and methodology was modeled after the UC Davis Vacancy Report. UC Davis has conducted the survey annually since 1975 and the survey is currently administered by a contracted 3rd party. The



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2015 Apartment Vacancy and Rental Rate Survey UC Davis report are attached (Attachment 2 and Attachment 3).

It appears that several participants may have included units that had just opened or were still under construction. Participants reporting 50% vacancy rate or greater were considered outliers. The average vacancy rate for participants was 9.78% without outliers and 19.66% with outliers. There was a difference in vacancy rates between participants reporting that their units were within 1 mile of the University of Missouri and participants with units not within one mile. Closer units had an average vacancy rate of 7.07% without outliers and 11.71% with outliers while units further than a mile reported an average vacancy rate of 12.79% without outliers and 52.09% with outliers. It is difficult to determine if the outliers are due to construction, opening late in the summer, misreporting, or reflect actual vacancy rates. The survey was kept anonymous to encourage participation, but it limited the ability to investigate complexes reporting high vacancy rates. 18 of the 25 participants reported they were planning on advertising their units to non-students and 7 of the 25 participants reported they reduced their monthly rent from last year to help fill vacancies. A summary of the results can be found in Attachment 4.

This survey represents only 4,414 units in Columbia's rental market. It is difficult to draw any conclusions from the survey except that it supports the difference in vacancy rates for student housing downtown and student housing outside of downtown.

## **University of Missouri, Columbia Enrollment Data**

The number of applicants, enrolled students, and transfers for almost all segments were down for Fall 2016 (Attachment 5). It is unknown if the trend will continue and the University could rebound and continue to their goal of 40,000 students. The retention rate for degree seeking full time undergraduate students remained steady for Fall 2016 at 85% (Attachment 6)). The effect of the 2016 drop in enrollment will not be felt in the rental market until Fall 2017 when the smaller freshman class begins to look for housing off-campus. There will certainly be approximately 1,400 fewer students looking for housing in the Fall of 2017 than in the Fall of 2016. This will mean higher vacancy rates for some properties and/or lower rents for students and even non-student renters. Enrollment will need to be examined on an annual basis to determine if a trend is developing.

## **Columbia Apartment Association**

Staff reached out to the Columbia Apartment Association to learn more about their concerns and insights into Columbia's rental market and student housing. In general, the association does not believe there is enough information regarding vacancies and enrollment to merit any policy decisions at this time. The association does not have an official opinion on where students should be housed (downtown or further from campus), and notes that any shift in student rental preferences creates winners and losers. The Association is interested in participating in any future efforts to collect data and analyze the market.



## Conclusions

There is insufficient data to evaluate if Columbia will experience a student housing bubble in the near future. Continuing to track segmented rental market data on an annual basis would help staff, landlords, council, developers, and other stakeholders determine trends, needed actions, and opportunities. A partnership between Moore and Shryock, City of Columbia, University of Missouri Off-Campus Housing, and Columbia Apartment Association could help with deploying an annual survey to all rental property owners and help achieve a higher response rate.

### Fiscal Impact

Short-Term Impact: N/A  
Long-Term Impact: N/A

### Vision & Strategic Plan Impact

Vision Impacts:

Primary Impact: Primary, Secondary Impact: Secondary, Tertiary Impact: Tertiary

Strategic Plan Impacts:

Primary Impact: Primary, Secondary Impact: Secondary, Tertiary Impact: Tertiary

Comprehensive Plan Impacts:

Primary Impact: Primary, Secondary Impact: Secondary, Tertiary Impact: Tertiary

### Legislative History

Date	Action
N/A	N/A

### Suggested Council Action

Informational