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S&P: U.S. Privatized Student Housing Credit Quality Improves On Stable Demand And Higher Coverage Although Risks Persist

Key Takeaways

- After several years of volatility, U.S. privatized student housing projects' occupancy and debt service coverage (DSC) have rebounded. Median occupancy is consistently above 96%, and every project rated by S&P Global Ratings is above 1.0x audited coverage, with fewer than 10% below 1.2x.
- The majority of recent new projects have estimated thinner coverage upon opening and have limited university support.
- Only two rated projects have defaulted since 2020, while numerous projects were acquired by their associated universities.

Colleges and universities are finding different ways to adapt to the changing realities in the U.S. privatized student housing sector brought about by demographic challenges, the evolving job market, and enhanced technology, among other things. Many continue to use public-private partnerships to fund much needed new housing on campus. Although this strategy tends to improve efficiencies and time to opening by outsourcing housing expertise, it also means lower auxiliary revenues for the institutions. On the heels of the global pandemic when student housing revenue was severely affected, most rated student housing entities were able to stay afloat, in some instances because schools were willing to pass on some emergency federal funds to alleviate operating pressure. In our opinion, these examples demonstrate the importance of the partnership between the projects and the institution. Since January 2023, S&P Global Ratings has added 22 new public ratings on housing projects: 10 were initially rated 'BBB-', five were rated 'BB+', four were rated 'BB', one was rated 'BBB', and two that had contingent leases were rated in the 'A' category.

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