



## Do College Towns Have Stronger Residential Real Estate Markets?

By Ken Wade

You've probably "*heard*" that college towns had stronger real estate markets, and were more recession resistant during 'down cycles.'

### **It *seems* logical – but is it true?**

No doubt, a consistent employment base, an influx of capital from outside the region, and other fundamental factors unique to college towns "should" be helpful, but "should" and "is" are often quite opposite in the real world!

For example, I've been following the 'hot market' predictions written by national magazines for many years. **They're almost always wrong.** Their prediction record a couple years after the fact is usually worse than if they had flipped a coin or just guessed!

The reason for their errors is simple:

They take a couple 'fundamental' factors, like warm climate or big employer coming to town, combine it with other 'news' stories and try to extrapolate that into higher housing prices down the road. Unless your main goal is to sell magazines...

### **It doesn't work that way.**

**There are *hundreds* of 'fundamental' forces that might – or might *not* – affect home values in a given market in a given time frame.** The problem is that none of them consistently work from one market to the next, or even within the same market during different time periods.

Building permits and mortgage rates are the most often cited 'fundamental' factors some investors (mistakenly) use to try to predict market cycles. You don't need to look back any further than a few years to prove those 'indicators' don't work.

Building permits in many markets were soaring while home values were simultaneously falling. Mortgage rates have been near record lows for years, but the market continues its downward spiral.

It's a fool's errand to try to guess which combination of the hundreds of fundamental factors might actually be relevant in a particular market during a particular time period, especially because:

**The biggest factor affecting home values has nothing to do with fundamentals at all; it's Market Psychology."**

Are college towns different?

Do they actually have a sustainable edge over other markets?

Let's take a look back in time. The truth is in the numbers.

### **Step #1**

Identify college towns whose student population is very large relative to that city's total population. (i.e. - isolate markets where student housing represents a disproportionately large percentage of total housing.)

### **Step #2**

Compare how home values performed in these college towns (relative to nearby markets and the USA as a whole) during the last three down market cycles.

### **Step #3**

Compare how home values appreciated in these college towns (relative to nearby markets and the USA as a whole) during the last 'up' cycle (1995 – 2006).

## **Executive Summary**

We selected 'college towns' where the student population was generally over 25% or so of the total population. This limited us to relatively small metropolitan areas where presumably, the college

had a stronger impact on the local housing market than would be found in larger metro areas.

We then analyzed specific home price appreciation performance of these 'college towns' relative to nearby markets and the USA overall during the last three real estate downturns.

We also analyzed the most recent up cycle from 1995 to 2006. (See charts below).

Based on this test, **it does appear that college towns are somewhat 'recession resistant'** – as evidenced by the preponderance of green arrows during downturns in the table below.

However, it should be noted that **when the cycle did turn back up, this sampling of college towns did not experience better home price appreciation than its peers, and generally lagged BEHIND the USA as a whole.** (See last two columns in table below.)

In fact, over the long term, these markets did not fare as well as the USA as a whole (except for one California market).

### **Conclusion:**

The main purpose of this study was to test the assumption that college towns are either:

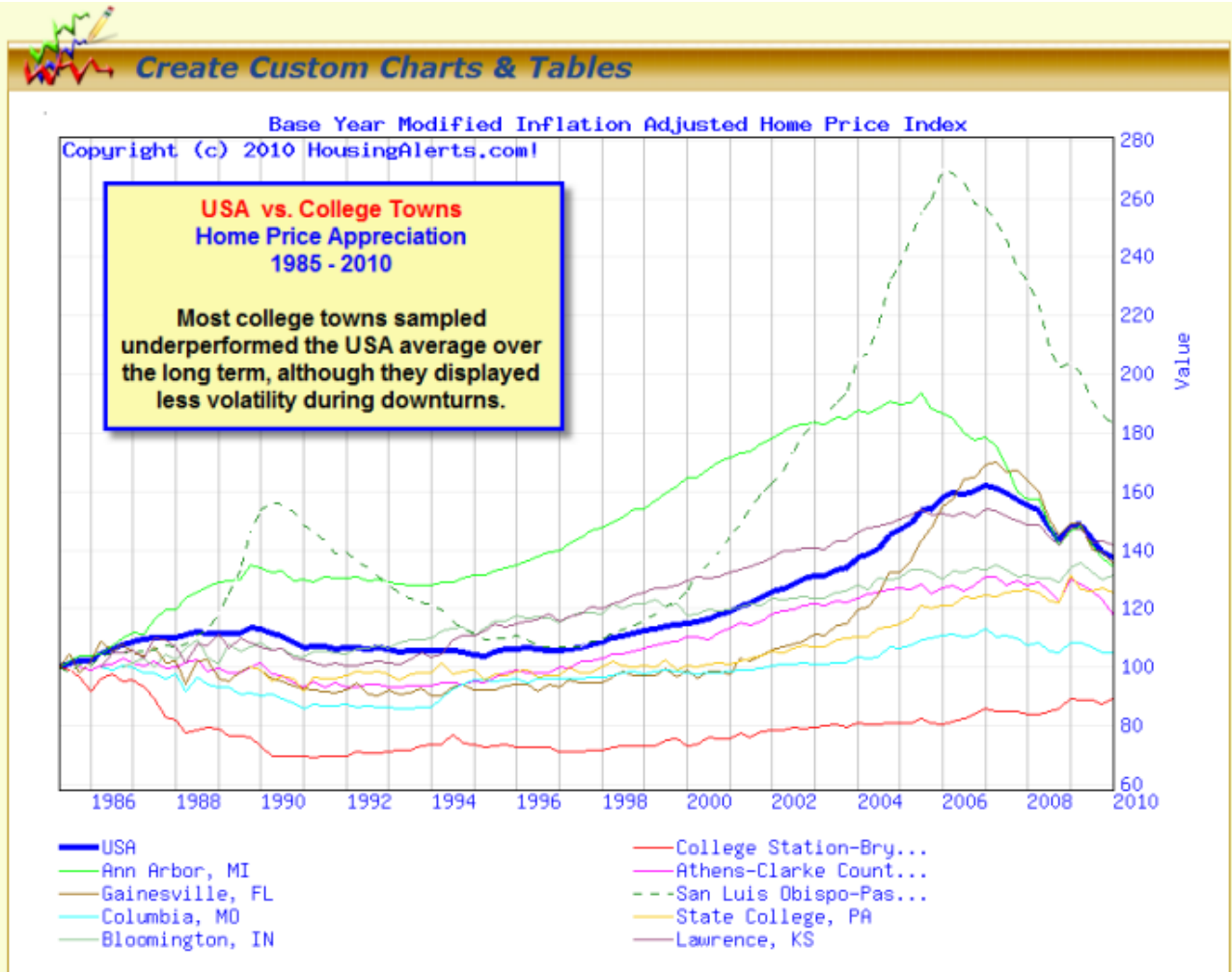
- 1) **Less susceptible to real estate market downturns, or**
- 2) **Faster to appreciate.**

While **there is evidence to support #1**, over the long term it does not appear to be a sustainable advantage. In fact, most of the college towns sampled experienced lower home price appreciation than the USA overall average, over the long term (1985 – 2010) and during the last housing 'up' cycle (1995 to 2006).

Of course, there are other factors – macro and micro in nature that cannot possibly be picked up in a quick study like this. Investing in student housing may be a viable strategy for many

other reasons, but excess 'automatic' appreciation does not appear to be one of them, except during market downturns!

## Long Term Home Price Appreciation USA Overall vs. College Towns Comparison Chart



## Summary Comparison of Residential Real Estate Appreciation College Towns vs. Nearby Markets & USA Overall Last Three 'down cycles' and Most Recent 'up cycle'

City	Main College	Down-Cycle <u>1Q80 – 4Q84</u>		Down-Cycle <u>1Q90 – 2Q95</u>		Down-Cycle <u>3Q06 – 4Q09</u>		'UP'-Cycle <u>3Q95 – 3Q06</u>	
		Local	USA	Local	USA	Local	USA	Local	USA
College Station, TX	Texas A & M	n/a	n/a	↑	↑	↑	↑	↓	↓
Ann Arbor, MI	Univ. of Michigan	=	↓	↓	↑	=	↓	↑	↓
Athens, GA	Univ. of Georgia	n/a	n/a	↑	↑	=	↑	=	↓
Gainesville, FL	Univ. of Florida	n/a	n/a	↑	↑	↑	↓	↓	↑
San Luis Obispo, CA	Cal Poly State Univ.	↑	↑	↓	↓	↑	↓	=	↑
Columbia, MO	Univ. of Mo	n/a	n/a	↑	↑	=	↑	=	↓
State College, PA	Penn State	n/a	n/a	=	↑	↑	↑	↑	↓
Bloomington IN	Indiana Univ.	n/a	n/a	=	↑	↑	↑	=	↓
Lawrence, Kansas	Univ. of Kansas	n/a	n/a	↑	↑	=	↑	=	↓

### Legend

College town generally outperformed



College town generally underperformed



Market had too few home sale transactions for statistical validity.

n/a

College town performed about equally

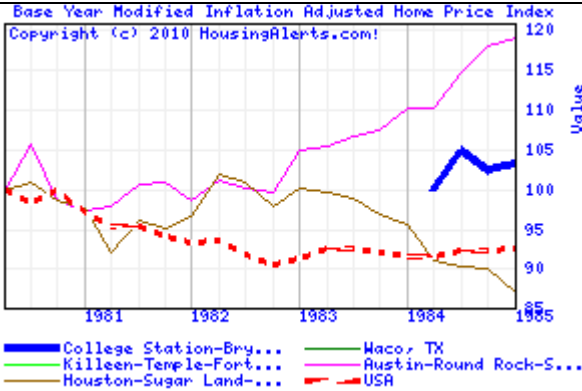


# Appendix 1

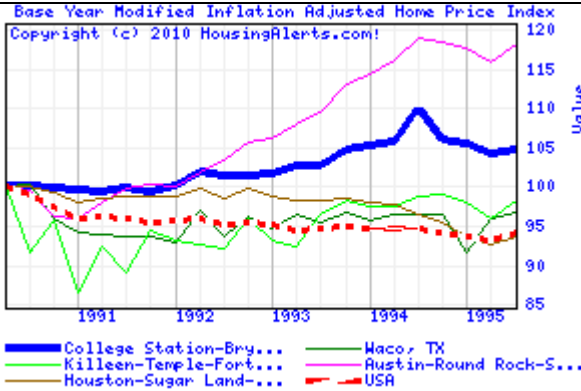
## Comparison Charts

### Texas A & M – College Station, TX Comparison Of Home Values to Nearby Markets and USA

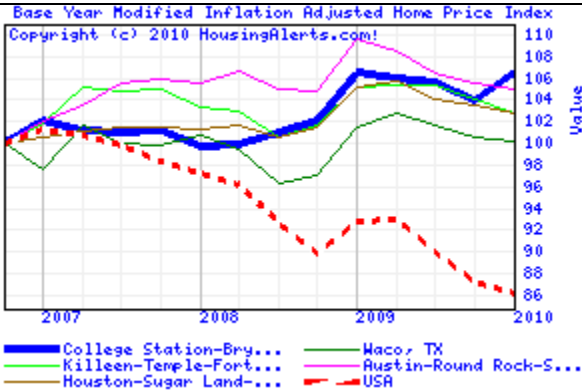
Performance During National Down-Cycle  
1<sup>st</sup> Qtr. 1980 - 4<sup>th</sup> Qtr 1984



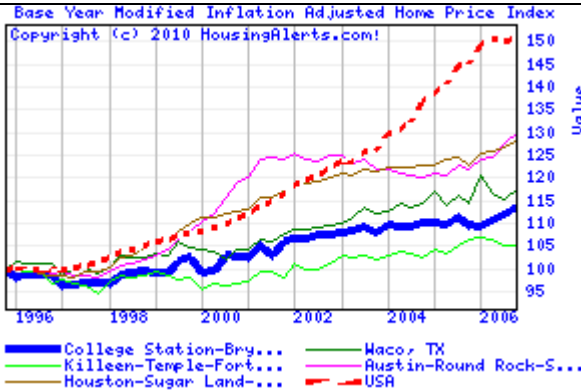
Performance During National Down-Cycle  
1<sup>st</sup> Qtr. 1990 - 2nd Qtr 1995



Performance During National Down-Cycle  
3<sup>rd</sup> Qtr. 2006 – 4<sup>th</sup> Qtr 2009

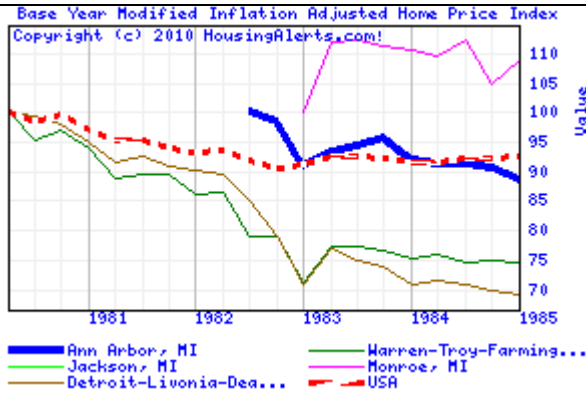


Performance During National Up-Cycle  
3<sup>rd</sup> Qtr. 1995 - 3rd Qtr 2006

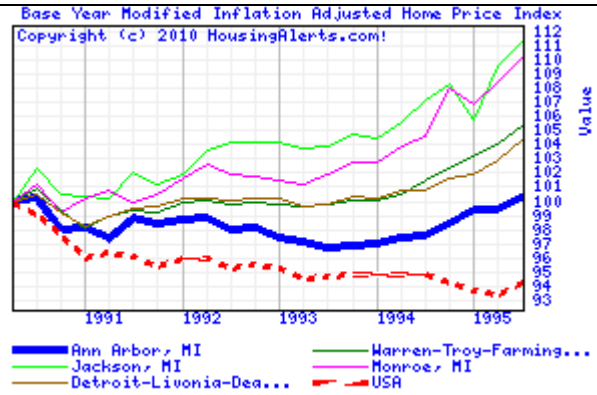


## University of Michigan – Ann Arbor, MI Comparison Of Home Values to Nearby Markets and USA

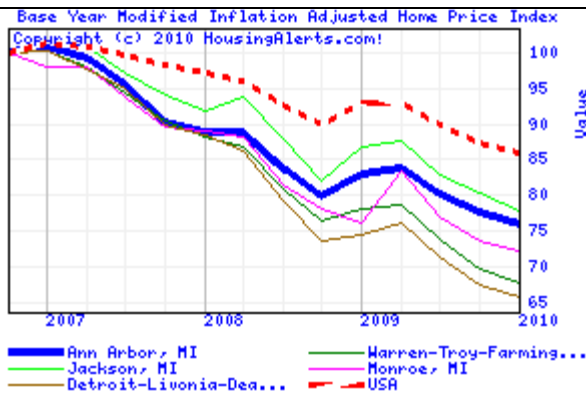
Performance During National Down-Cycle  
1<sup>st</sup> Qtr. 1980 - 4<sup>th</sup> Qtr 1984



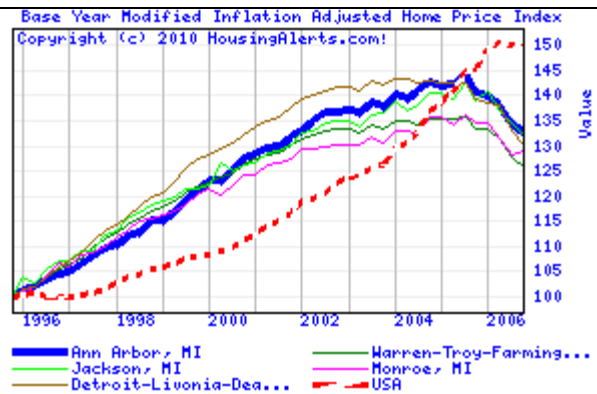
Performance During National Down-Cycle  
1<sup>st</sup> Qtr. 1990 - 2nd Qtr 1995



Performance During National Down-Cycle  
3<sup>rd</sup> Qtr. 2006 – 4<sup>th</sup> Qtr 2009

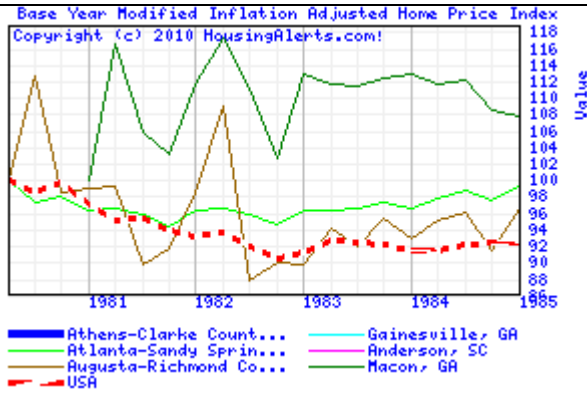


Performance During National Up-Cycle  
3<sup>rd</sup> Qtr. 1995 - 3rd Qtr 2006

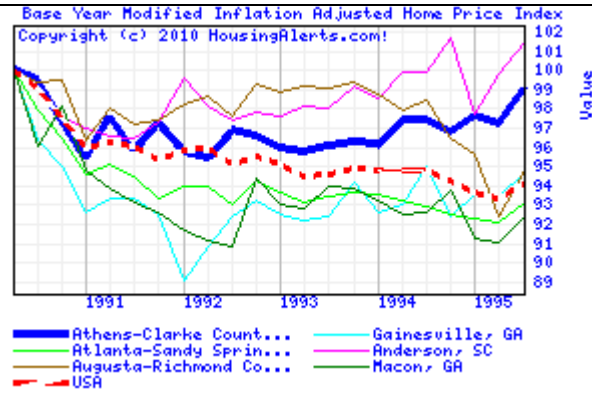


## University of GA – Athens, GA Comparison Of Home Values to Nearby Markets and USA

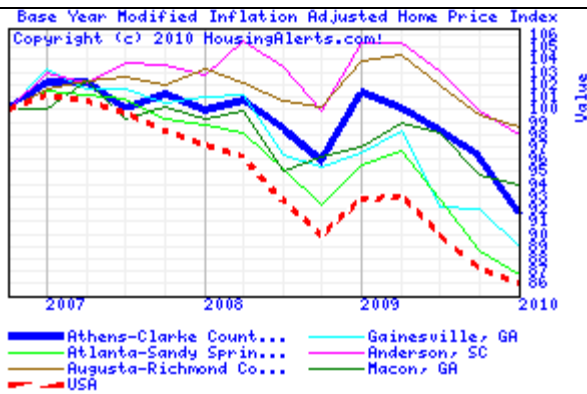
Performance During National Down-Cycle  
1<sup>st</sup> Qtr. 1980 - 4<sup>th</sup> Qtr 1984



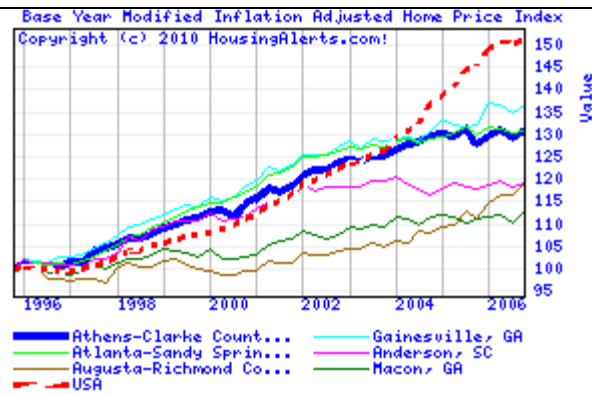
Performance During National Down-Cycle  
1<sup>st</sup> Qtr. 1990 - 2nd Qtr 1995



Performance During National Down-Cycle  
3<sup>rd</sup> Qtr. 2006 – 4<sup>th</sup> Qtr 2009



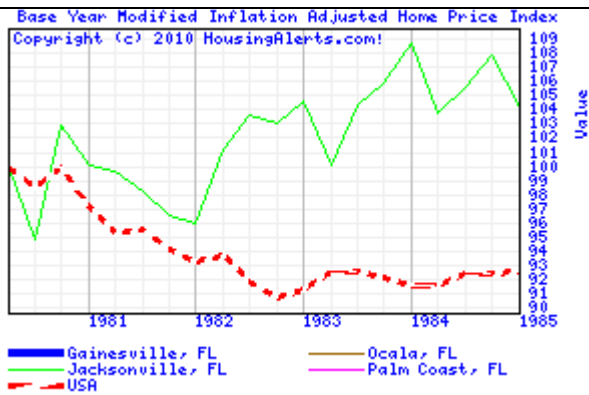
Performance During National Up-Cycle  
3<sup>rd</sup> Qtr. 1995 - 3rd Qtr 2006



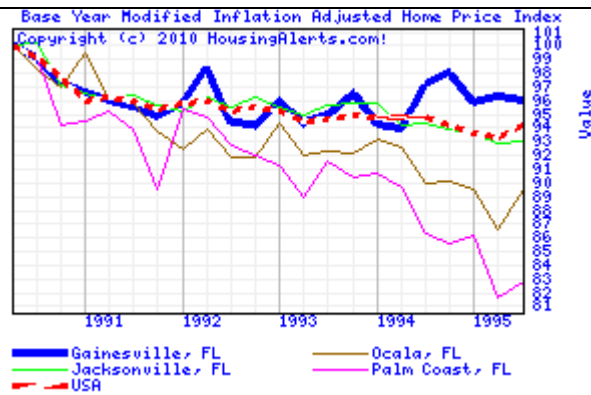


## University of FL – Gainesville, FL Comparison Of Home Values to Nearby Markets and USA

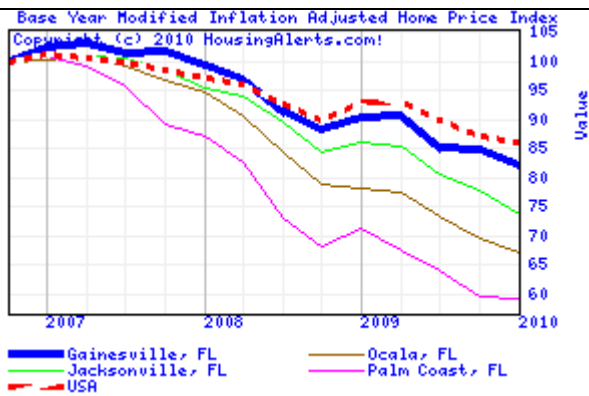
Performance During National Down-Cycle  
1<sup>st</sup> Qtr. 1980 - 4<sup>th</sup> Qtr 1984



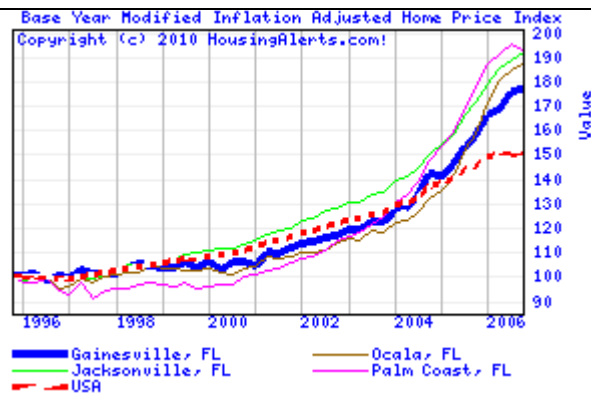
Performance During National Down-Cycle  
1<sup>st</sup> Qtr. 1990 - 2nd Qtr 1995



Performance During National Down-Cycle  
3<sup>rd</sup> Qtr. 2006 – 4<sup>th</sup> Qtr 2009

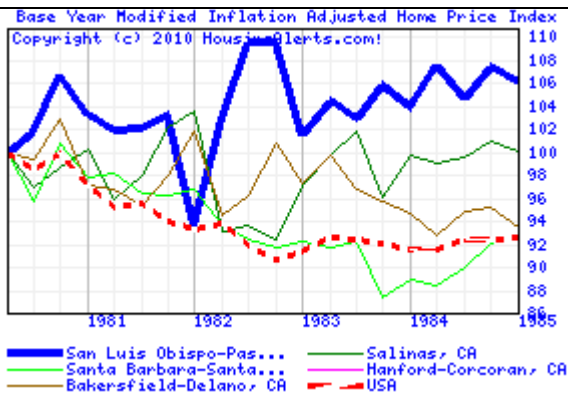


Performance During National Up-Cycle  
3<sup>rd</sup> Qtr. 1995 - 3rd Qtr 2006

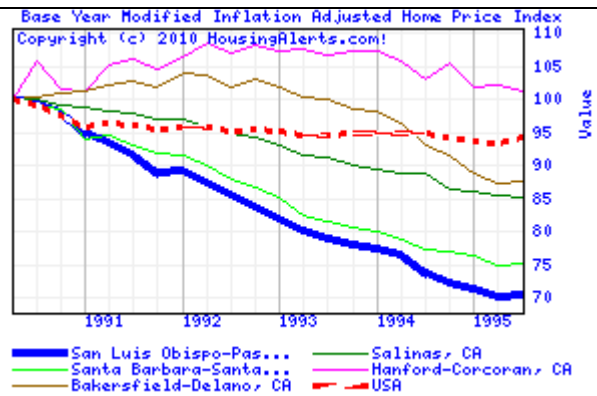


## California Poly State University – San Luis Obispo, CA Comparison Of Home Values to Nearby Markets and USA

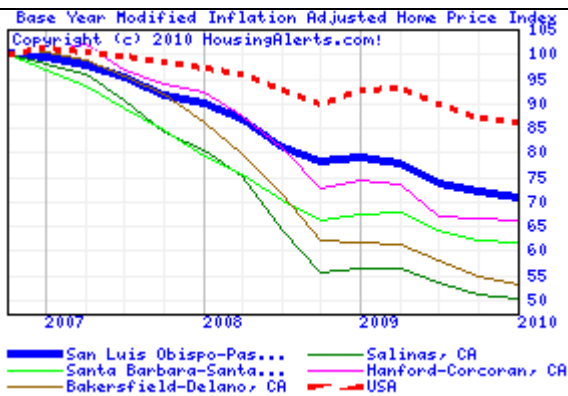
Performance During National Down-Cycle  
1<sup>st</sup> Qtr. 1980 - 4<sup>th</sup> Qtr 1984



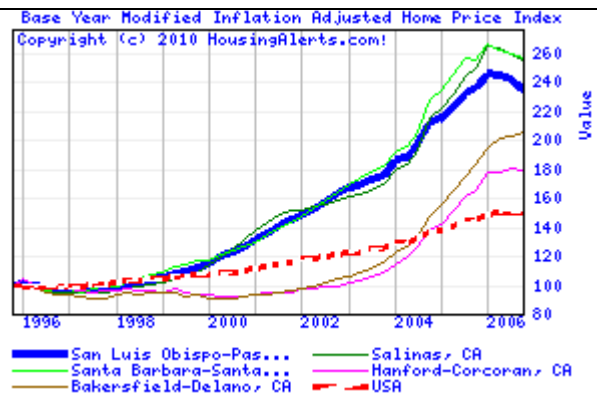
Performance During National Down-Cycle  
1<sup>st</sup> Qtr. 1990 - 2nd Qtr 1995



Performance During National Down-Cycle  
3<sup>rd</sup> Qtr. 2006 – 4<sup>th</sup> Qtr 2009

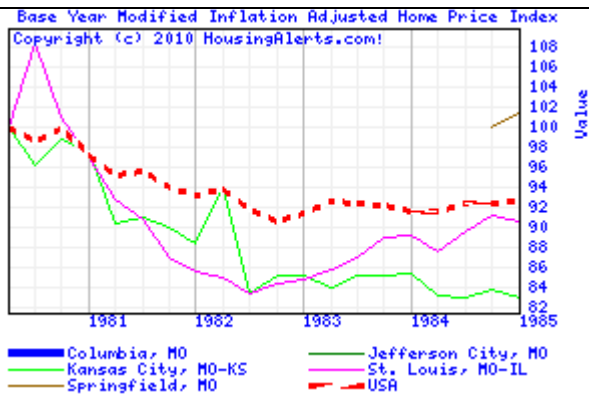


Performance During National Up-Cycle  
3<sup>rd</sup> Qtr. 1995 - 3rd Qtr 2006

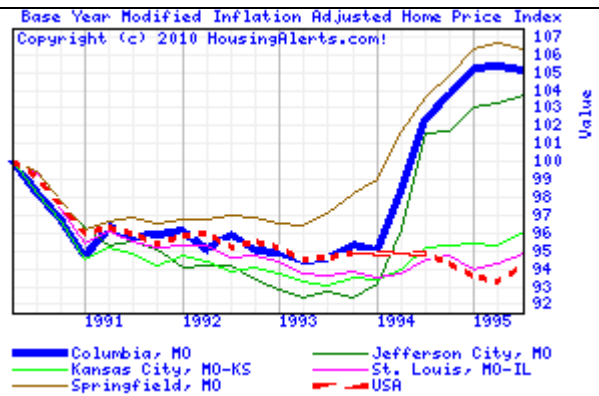


## University of MO – Columbia, MO Comparison Of Home Values to Nearby Markets and USA

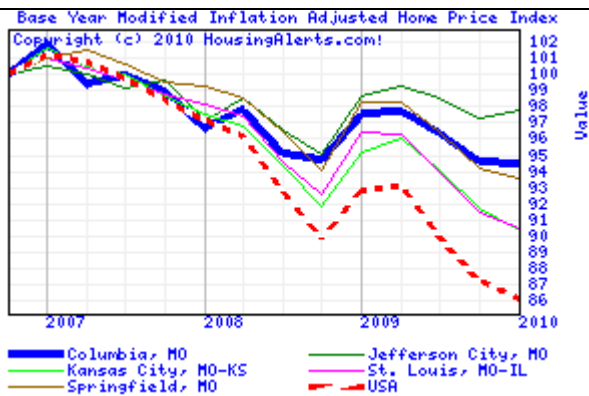
Performance During National Down-Cycle  
1<sup>st</sup> Qtr. 1980 - 4<sup>th</sup> Qtr 1984



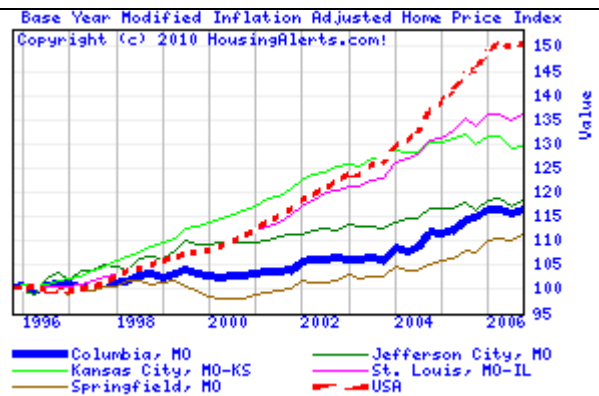
Performance During National Down-Cycle  
1<sup>st</sup> Qtr. 1990 - 2nd Qtr 1995



Performance During National Down-Cycle  
3<sup>rd</sup> Qtr. 2006 – 4<sup>th</sup> Qtr 2009

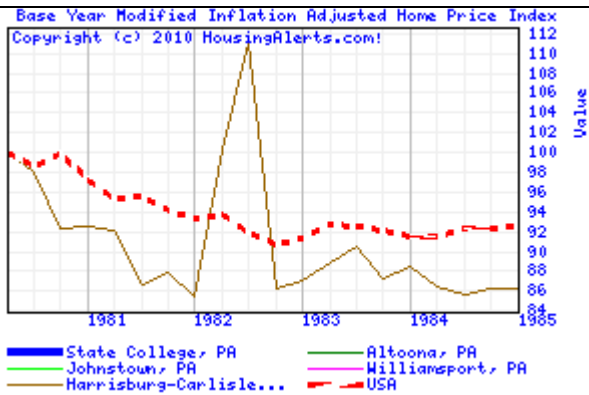


Performance During National Up-Cycle  
3<sup>rd</sup> Qtr. 1995 - 3rd Qtr 2006

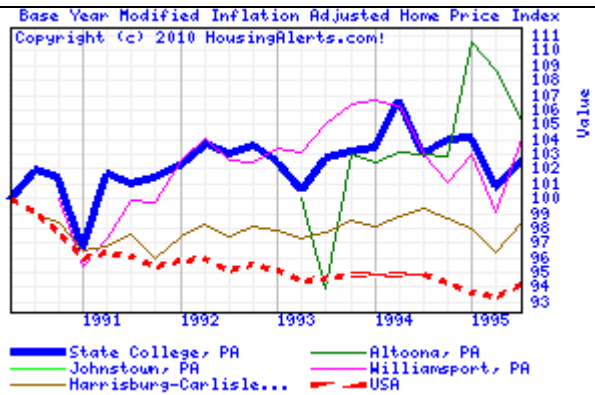


## PA State University – State College, PA Comparison Of Home Values to Nearby Markets and USA

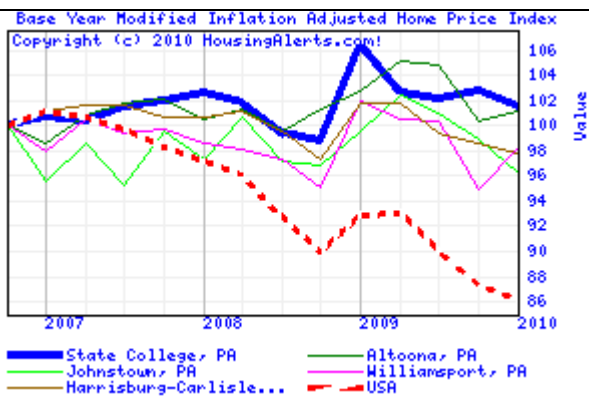
Performance During National Down-Cycle  
1<sup>st</sup> Qtr. 1980 - 4<sup>th</sup> Qtr 1984



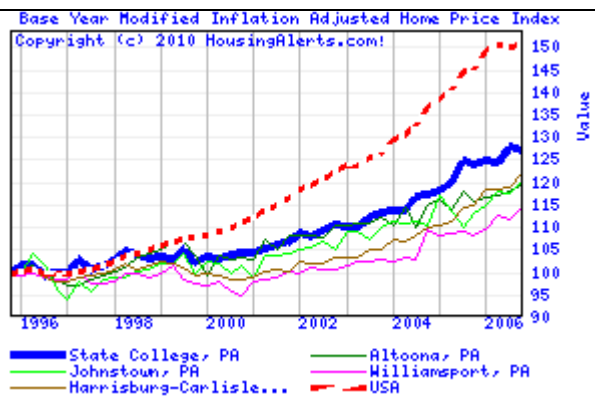
Performance During National Down-Cycle  
1<sup>st</sup> Qtr. 1990 - 2nd Qtr 1995



Performance During National Down-Cycle  
3<sup>rd</sup> Qtr. 2006 – 4<sup>th</sup> Qtr 2009

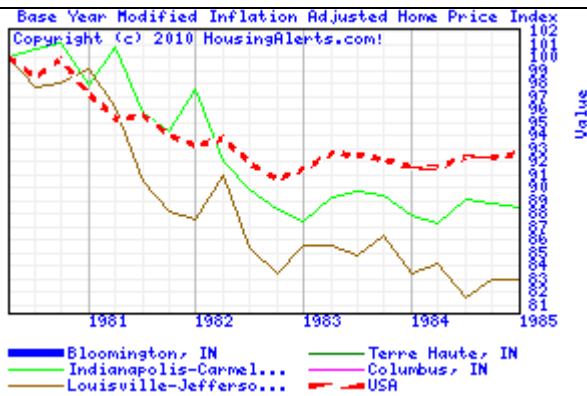


Performance During National Up-Cycle  
3<sup>rd</sup> Qtr. 1995 - 3rd Qtr 2006

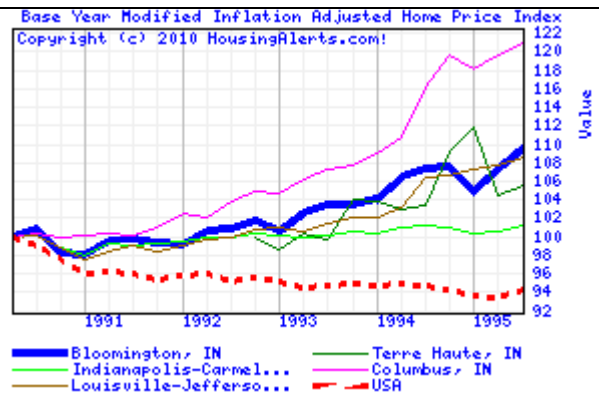


## Indiana University – Bloomington IN Comparison Of Home Values to Nearby Markets and USA

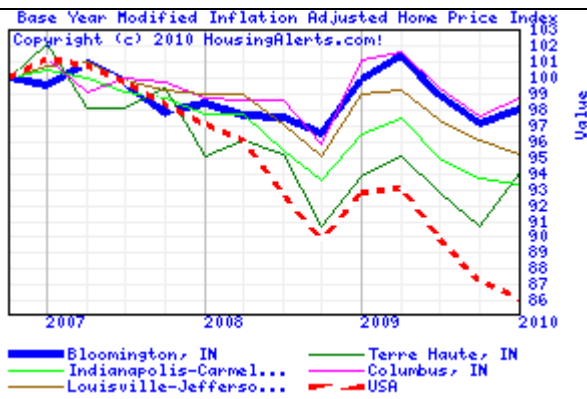
Performance During National Down-Cycle  
1<sup>st</sup> Qtr. 1980 - 4<sup>th</sup> Qtr 1984



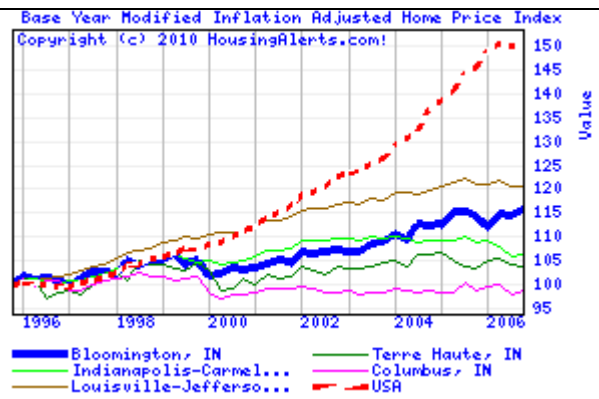
Performance During National Down-Cycle  
1<sup>st</sup> Qtr. 1990 - 2nd Qtr 1995



Performance During National Down-Cycle  
3<sup>rd</sup> Qtr. 2006 – 4<sup>th</sup> Qtr 2009

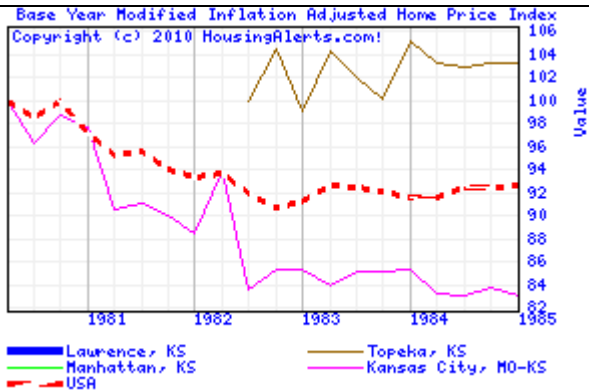


Performance During National Up-Cycle  
3<sup>rd</sup> Qtr. 1995 - 3rd Qtr 2006

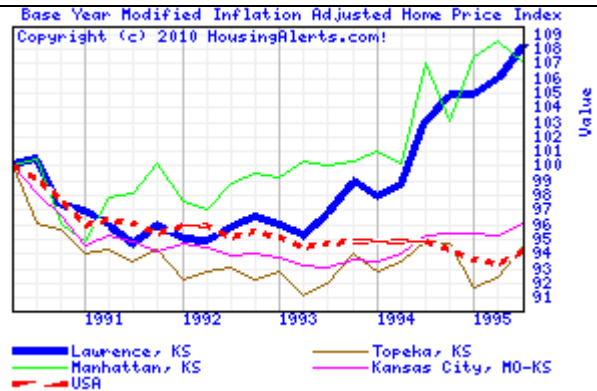


## University of Kansas – Lawrence, KS Comparison Of Home Values to Nearby Markets and USA

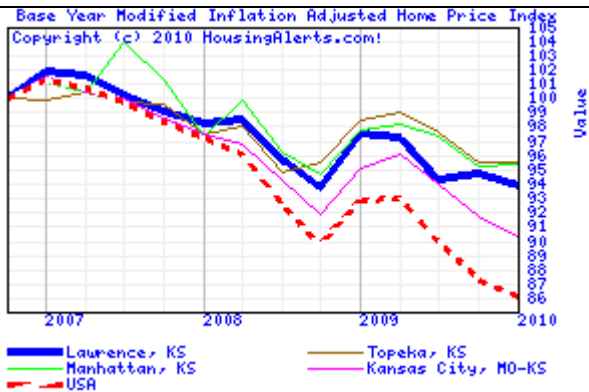
Performance During National Down-Cycle  
1<sup>st</sup> Qtr. 1980 - 4<sup>th</sup> Qtr 1984



Performance During National Down-Cycle  
1<sup>st</sup> Qtr. 1990 - 2nd Qtr 1995



Performance During National Down-Cycle  
3<sup>rd</sup> Qtr. 2006 – 4<sup>th</sup> Qtr 2009



Performance During National Up-Cycle  
3<sup>rd</sup> Qtr. 1995 - 3rd Qtr 2006

