

REAL ESTATE NEWS March 13, 2008, 1:22PM EST

College Towns: Still a Smart Investment

Property values in college towns are holding strong and can make a good investment whether you're a parent, an investor, or just looking to relocate

by [Prashant Gopal](#)

A year ago, Jeff Shea began buying up rental properties around the University of Illinois at Urbana-Champaign, from which he had only recently graduated with a business major. Shea, 23, who lives in Chicago, owns three rental homes near campus, including a four-bedroom house he bought for \$138,000 and rents to four students for \$1,800 a month.

"It's the best time ever to buy houses," Shea said. "The rent is inflated because so many people go to school here."

Shea said he'd be happy if Champaign-Urbana prices took a dive so that he could buy even more. But college towns have remained relatively stable in this slumping real estate cycle. Students, university employees, and faculty keep apartments filled and form a steady stream of home buyers. And retirees and professionals flock to college towns because they're attracted to the lifestyle and cultural activities.

RECESSION-RESISTANT MARKETS

Enrollments—especially at large public universities—are growing as more children of baby boomers (so-called echo boomers) graduate from high school. At cash-strapped public universities, dorm beds are limited and students are often forced to find private housing after freshman year, says Michael Zaransky, author of *Profit by Investing in Student Housing* (Kaplan Publishing 2006) and co-CEO of Northbrook (Ill.)-based Prime Property Investors, which invests in student housing.

"It's a resilient market and seems to be fairly recession-proof," Zaransky says.

BusinessWeek.com worked with OnBoard, a local real estate information specialist, to find out how college towns are doing in this slumping housing market. We selected towns with long-established, first-rate colleges and found that 17 of 25 college towns outperformed their respective states in terms of home price appreciation last year. Four towns performed as well, and only four towns underperformed.

In Palo Alto, Calif., which is home to portions of Stanford University, median home prices increased 15% in 2007 compared with 2006, according to OnBoard. (Overall real estate prices in California dropped 9%.) The area benefits not only from the university but also from its proximity to Silicon Valley. Similarly, Austin, Tex., home of the University of Texas, saw a 6% price increase in 2007, while home prices in the rest of the state remained flat.

But not all college markets have weathered the housing slump as well. Williamsburg, Va., the home of the College of William & Mary, which has restrictions that limit off-campus rentals, saw a 16% annual home price drop in 2007. Virginia's overall median home prices fell just 3%.

NOT JUST FOR STUDENTS

Zaransky says the houses located just steps from campus are seeing the most appreciation because that's where students typically want to live. But other areas of college towns also benefit from local academic institutions.

Sandy Wentworth, a Realtor with Jones Group Realtors in Amherst, Mass., says retirees—especially former academics—like the Amherst area, which is home to four liberal arts colleges and the University of Massachusetts Amherst. "They want access to the culture and all the great libraries," Wentworth says.

Mark Waldhoff, a Realtor with [Keller Williams Realty](#) in Champaign, Ill., says the market around campus is stable in part because

the university brings buyers and renters to town from more affluent urban communities. "It brings well-paying jobs into the community and brings a lot of diversity," he says. "Professors are often surprised about what the average sales price is here compared to the community they came from. You can buy a single-family home for \$155,000 to \$160,000."

For those parents of college students who can afford it, buying a house close to campus often makes good financial sense because their children need a place to live for four years, after which the property can be sold or turned into a rental home.

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