

DENVERPOST

Universities' need for space a boost to property market

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LOS ANGELES — Faced with an unrelenting tide of new students in recent years, Mountain State University could have easily found more classroom space in one of the many office buildings hurting for tenants these days.

Instead, the Beckley, W.Va.-based private university went retail, buying a financially troubled, 550,000-square-foot mall near its Martinsburg, W.Va., campus. Students will take classes this fall in space set aside just a brief stroll from retailers such as Foot Locker, Radio Shack and J.C. Penney.

"We needed more space," said Layne Diehl, executive vice president and provost of the university's Martinsburg campus. "And there's plenty of room for the university to be able to expand."

A weak economy and the worst job market in decades has prompted many laid-off workers and others to bulk up their resumes through an advanced degree or training in a different career. That's led to a surge in enrollment at traditional universities and for-profit education providers such as the University of Phoenix and ITT Technical School.

And as classrooms fill, many of these institutions are snapping up space in office buildings and shopping malls to accommodate more students. Others are starting from scratch, erecting new buildings.

The trend is a rare bright spot for a commercial property market that remains hampered by high vacancy rates and falling values. Many businesses have cut back on their office and retail space needs, and in most cases aren't expected to see the need for more until their economic fortunes improve.

For many educational institutions, enrollment has never been higher, and neither has their space needs.

"They're one of the few out there in the marketplace that are continuing to grow and taking space," said Craig Cassell, who leads Grubb & Ellis' Education Practice Group.

Post-secondary institutions spent 9.4 percent of total revenue on rent in 2009, up from 6.8 percent in 2006, according to financial data analysis firm Sagemworks Inc. Rental rates on commercial property fell sharply during that period, so the increase in rental costs is a reflection of how the sector has ramped up leasing.

Among the fastest-growing educational institutions are for-profit companies that operate schools offering a variety of degrees. While much of their growth has come from students taking courses online, many companies have continued to add so-called learning centers where students can take some classes, study or use computer equipment.