



## Multifamily Market Commentary – May 2016

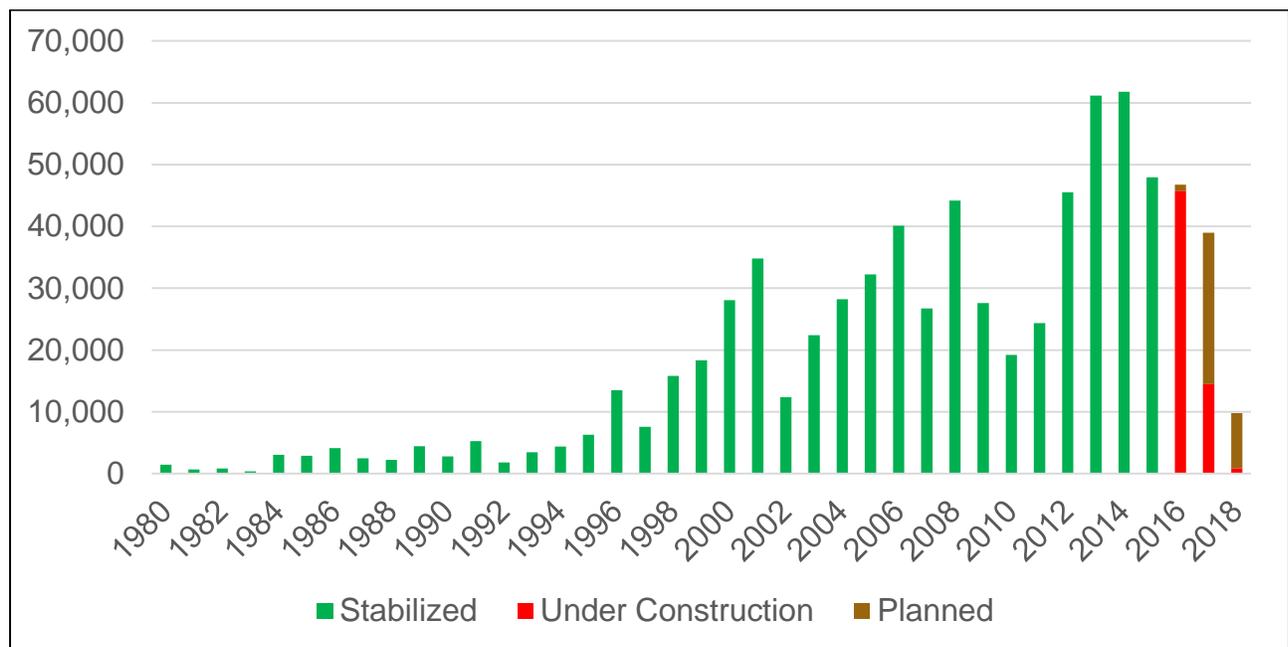
### Spring 2016 Student Housing Update

Student housing has been red hot for the last few years. Both 2013 and 2014 brought record amounts of new supply. However, during fall 2015 the sector finally started to settle down and moderate – with a significant decrease in the amount of beds delivered compared to previous years. This period of moderation is expected to continue through fall 2017. These moderating supply levels will benefit the sector and help improve fundamentals across the board and at the top universities.

#### Supply Continuing to Moderate

Bed deliveries to the student housing sector have been at record levels for the last three school years. But developers have started slowing down. New supply in fall 2015 was nearly 20 percent below fall 2014. Dallas-based multifamily research firm Axiometrics reports the delivery of approximately 48,000 beds across the country in fall 2015. As seen in the chart below, the number of bed deliveries is expected to trend downwards over the next two school years. Developers are expected to deliver approximately 45,000 beds in fall 2016 and there are currently fewer than 40,000 beds underway for fall 2017.

**Off-Campus Student Housing Beds Through fall 2017**



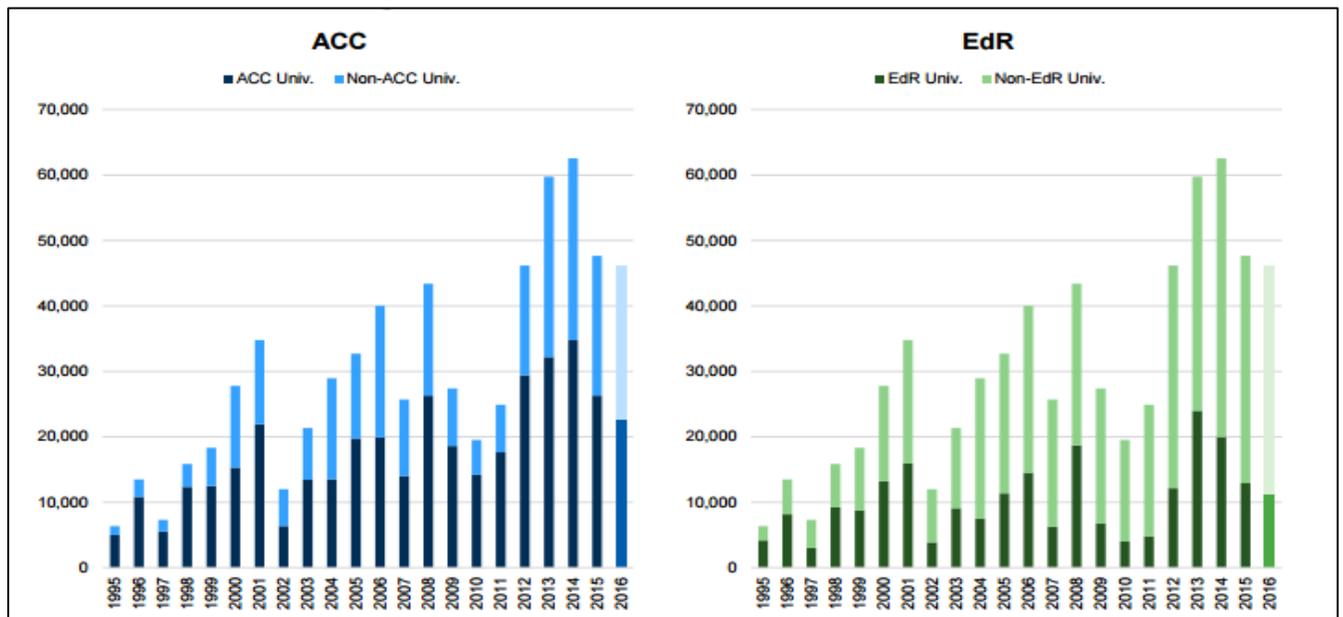
Source: Axiometrics Inc.



## Contributions by the Top Student Housing REITs

American Campus Communities (ACC) and Education Realty Trust (EdR) are the two biggest REIT developers in the student housing sector. They are responsible for delivering a sizable portion of the sector's off-campus student housing supply. For the fall 2015 school year, ACC and EdR delivered approximately 40,000 beds combined, which accounted for about 83 percent of total deliveries. As seen in the chart below, ACC and EdR will supply approximately 31,500 of the 45,000 beds underway for the fall 2016 school year.

### Off-Campus Student Housing Supply for the REITs (1995-2016)

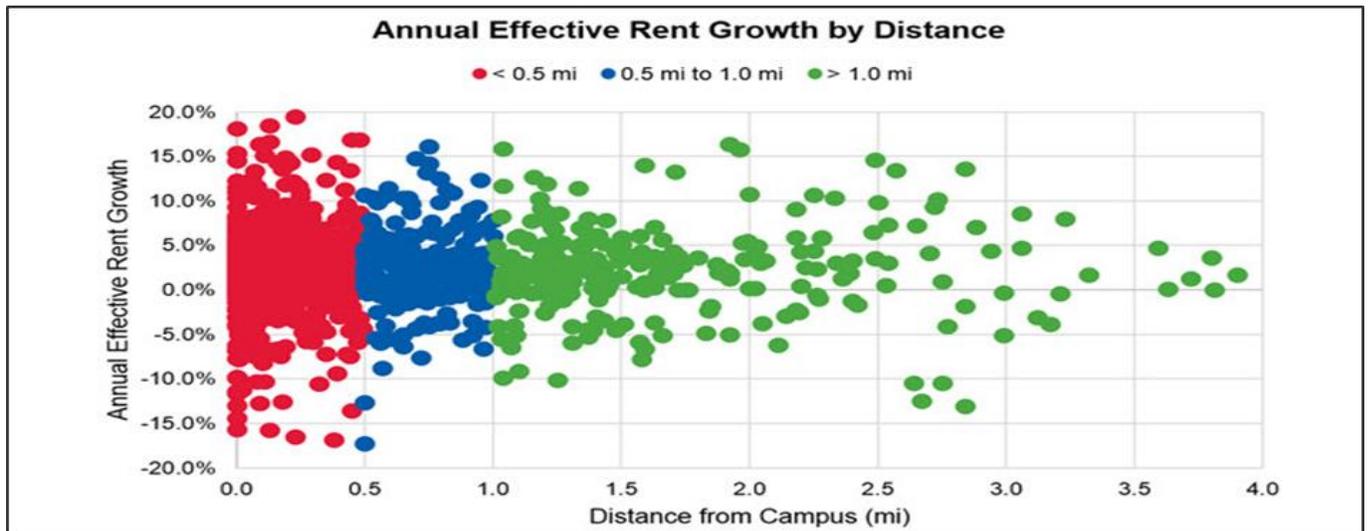


*Source: Axiometrics Inc.*



## Location Plays a Significant Role

According to Axiometrics, distance from campus is one of the most significant variables for student housing rentals. Properties located a half mile or less from campus lease much more quickly than those further away, presumably because students find them more desirable. As of January 2016, 40.2 percent of these properties were preleased for the upcoming school year beginning fall 2016. Properties located within a half mile of campus also experienced better rent growth. As of January 2016, the closer properties were experiencing effective rent growth of 2.4 percent – or \$556 per bed – year over year.



[Source: Axiometrics Inc.](#)



## Fundamentals at the Top 10 Universities

Performance varies among the top 10 universities, where fundamentals tell different stories. The 10 universities that delivered the greatest number of beds in 2015 are scheduled to deliver 15,629 beds for fall 2016 – 34 percent of the total 46,000 total beds planned. Texas A&M University – which perennially makes large deliveries – is scheduled to add 2,600 beds to its supply this fall. Rounding out the top three suppliers are the University of Arkansas and the University of Illinois-Urbana-Champaign, which are scheduled to deliver 2,300 beds and 1,500 beds, respectively.

Eight of the top ten universities are seeing their effective rents grow. Their rent growth averages 2.64 percent. Rents are contracting 1.8 percent and 0.1 percent, respectively, at Louisiana State University and the University of Nebraska-Lincoln.

Preleasing for fall 2016 is not quite as positive for the top 10 universities. As of March 2016, prelease numbers were lagging behind the same period of 2015 at eight of the top ten schools. The University of South Florida was the only school in the top 10 preleasing its new supply at a higher rate than in the prior year. Axiometrics has no prelease data for the University of Maryland.

### Student Housing Fundamentals for fall 2016 – Top 10 Universities

| University Name                           | New Off-Campus Beds |               |                | March 2016<br>Prelease | Prelease<br>Variance | Fall 2016<br>Average<br>Eff. Rent | Annual<br>Eff. Rent<br>Growth |
|---|---------------------|---------------|----------------|------------------------|----------------------|-----------------------------------|-------------------------------|
|   | 2014                | 2015          | 2016*          |                        |                      |                                   |                               |
| University of South Florida               |                     |               | 1,160          | 62.3%                  | 12.2%                | \$594                             | 5.2%                          |
| Texas A&M University                      | 1,704               | 1,258         | 2,602          | 56.8%                  | -5.5%                | \$683                             | 3.2%                          |
| University of Maryland                    |                     | 829           | 1,493          | See note               |                      | \$931                             | 2.4%                          |
| University of Illinois - Urbana-Champaign |                     | 998           | 1,522          | 59.1%                  | -3.5%                | \$690                             | 2.4%                          |
| University of South Carolina              | 851                 | 1,174         | 1,300          | 74.8%                  | -2.7%                | \$594                             | 2.1%                          |
| University of Tennessee                   | 790                 |               | 1,425          | 54.3%                  | -13.0%               | \$531                             | 2.0%                          |
| University of Arkansas                    | 471                 |               | 2,335          | 76.4%                  | -1.5%                | \$613                             | 1.9%                          |
| University of Mississippi                 |                     |               | 1,096          | 51.4%                  | -7.8%                | \$590                             | 1.9%                          |
| University of Nebraska - Lincoln          | 475                 | 838           | 1,256          | 37.2%                  | -3.2%                | \$623                             | -0.1%                         |
| Louisiana State University                |                     | 2,428         | 1,440          | 42.2%                  | -9.8%                | \$643                             | -1.8%                         |
| <b>National</b>                           | <b>61,794</b>       | <b>47,958</b> | <b>45,757*</b> | <b>60.1%</b>           | <b>4.6%</b>          | <b>\$617</b>                      | <b>2.4%</b>                   |

*Source: Axiometrics Inc.*

## Moderation Equals Maturity

The student housing sector is finally growing up. It is no longer delivering significant amounts of supply year after year. This tapering of bed deliveries will allow the sector to mature and moderate. Fall 2016 is expected to be the second consecutive school year of lower deliveries, which will allow overall fundamentals to improve as demand catches up with supply. Even though the supply is slowing down, the developers responsible for deliveries are still keeping relatively busy. That includes industry leaders American Campus Communities and Education Realty Trust, which are responsible for delivering the lion's share of the off-campus student housing supply. Fundamentals for deliveries are improving at the top universities. Prelease numbers may be down, but there is plenty of time for new buildings to lease out before the start of the fall 2016 school year. Overall, this mature phase of the student housing sector suggests that its future will be strong.



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