

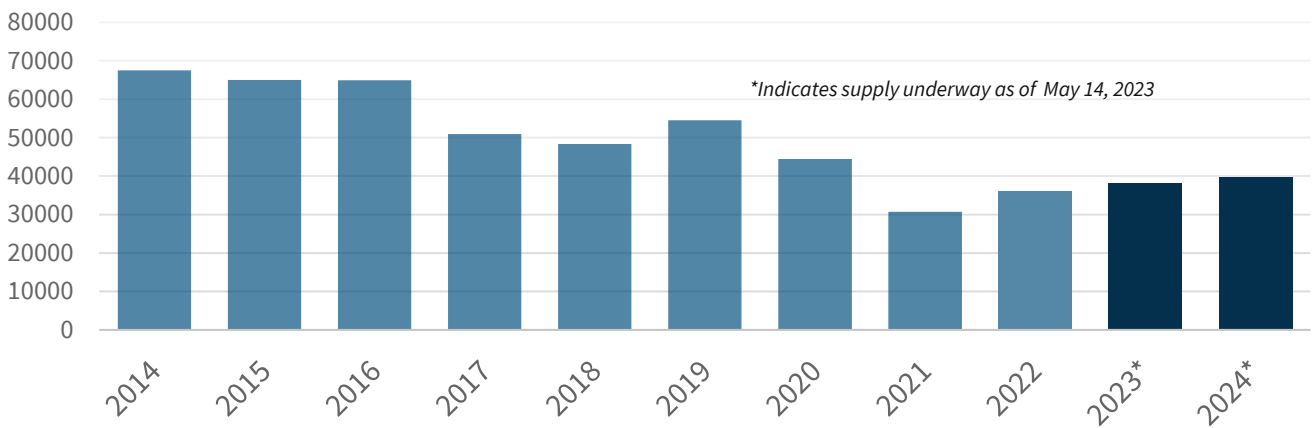
June 2023

Spring 2023 Off-Campus Student Housing Update

It has been over three years since the pandemic began and immediately impacted student housing performance for both the spring and fall semesters of 2020. Since the spring 2021 semester, student housing fundamentals have continued to see improving fundamentals. As of spring 2023, the trend continues as record-breaking performance for rent growth, occupancies, and pre-lease growth rates continue to be above recent trends.

However, even though each semester has seen improvement since 2020, there is a general expectation that moderation is on the horizon, and sooner rather than later. Moderating performance is expected simply because the projected population size of potential college-age people is expected to continue declining through 2030. This expected moderation will likely still see increased levels of rent growth, asking rents, and stable occupancies; however, as supply remains below peak levels during the 2010s, fundamentals are expected to follow.

Student Housing New Supply Deliveries by Beds 2014-2024*



Source: RealPage Inc.
RealPage 175 Top Universities

A New Normal For Annual Supply

The amount of new off-campus student housing being added to the existing inventory has been trending downward since 2016, as seen in the chart above. For the second consecutive school year, new supply has been under 40,000 new beds delivered. For the semester ending fall 2022, there were approximately 36,000 new beds delivered. Furthermore, as of May 2023, both fall 2023 and fall 2024 are expected to have approximately 38,000 and 39,000 new beds delivered according to RealPage Inc.

Indeed, the off-campus student housing sector had been oversupplied for quite some time. Between 2013 and 2016, there were approximately 241,000 beds delivered, and since then the number of beds delivered annually has been steadily decreasing. Many off-campus student housing developers realized that declining college and university enrollments were resulting in a softening of demand and therefore began curtailing the number of new development projects. Additionally, due to a combination of higher building material prices and ongoing construction labor shortages, many developers have been narrowing their pipelines to focus on more timely projects that will deliver in the near term. Furthermore, as interest rates have been elevated over the past several months, financing has become both more stringent and more expensive than in previous years, keeping new supply in check. As a result, we believe that the new baseline for student housing supply will be closer to the levels of fall 2022 and fall 2023's expected supply, rather than the amount of supply delivered between 2014 and 2018.

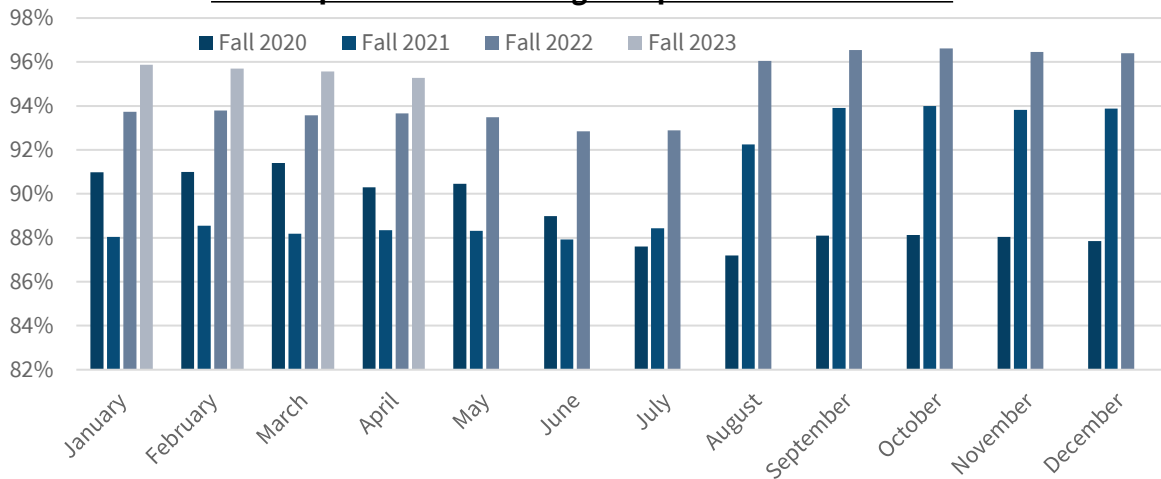
Multifamily Economic and Market Commentary

Improved Fundamental Performance

For the last two school years beginning in the fall semester, student housing performance has continued to improve. Although it is still early in the year, fundamentals for the upcoming fall 2023 school year appear to already be above the last two school years, as seen in the charts below. The pre-leasing period for the upcoming school year officially begins as soon as the current school year takes place. For example, for the fall 2023 school year, pre-leasing began in September 2022. According to Dallas-based student housing data vendor, RealPage, Inc., pre-leasing for the fall 2023 school year as of April 2023 was approximately 73%. Comparing that to the prior year, we find that the pre-leasing rate for April 2022 was approximately 71%, which was the highest amount on record, at the time.

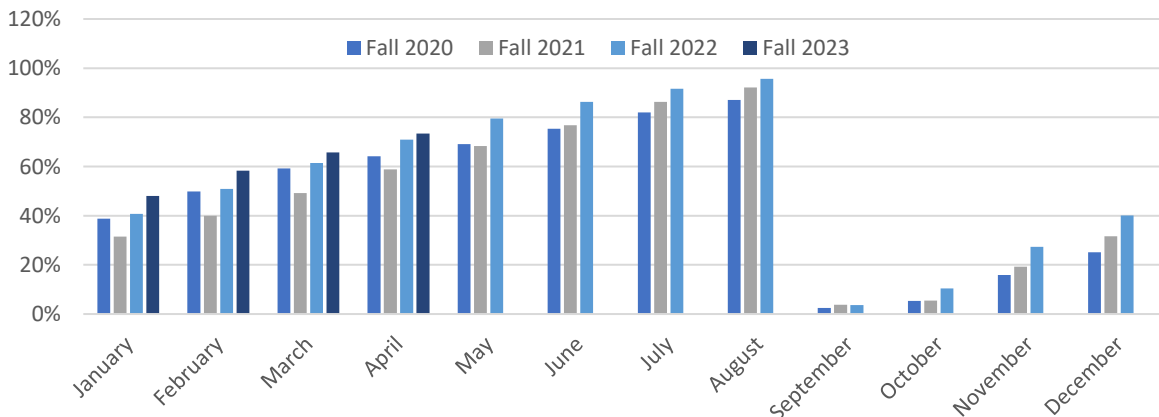
Furthermore, pre-leasing rates are not the only student housing fundamental experiencing increased demand. As of April 2023, the occupancy rate for off-campus beds tracked by RealPage was at approximately 95% compared to 94% in April 2022. There appears to be ample demand for off-campus student housing properties; however, we believe that some of these elevated trends are beginning to stabilize and will start to slow down over the next few years, based on a myriad of factors, including population size, property transaction activity, and the rising costs of higher education, both in terms of tuition and financing costs.

Off-Campus Student Housing Occupancies Since Fall 2020



Source: RealPage Inc.
RealPage 175 Top Universities

Off-Campus Pre-Leasing Rates Since Fall 2020



Source: RealPage Inc.
RealPage 175 Top Universities

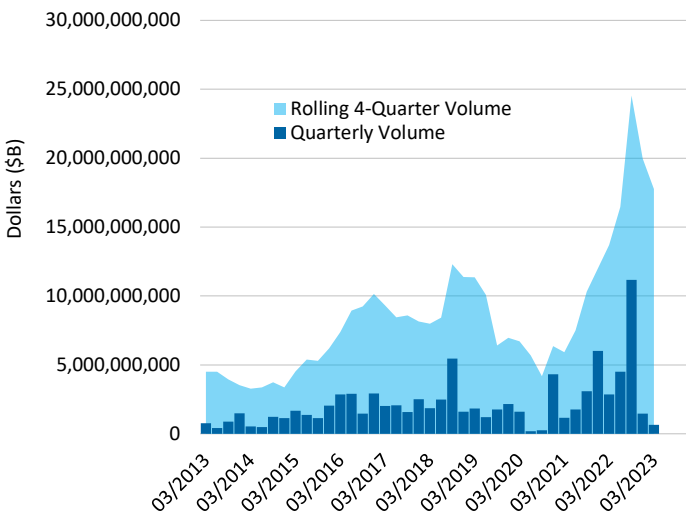


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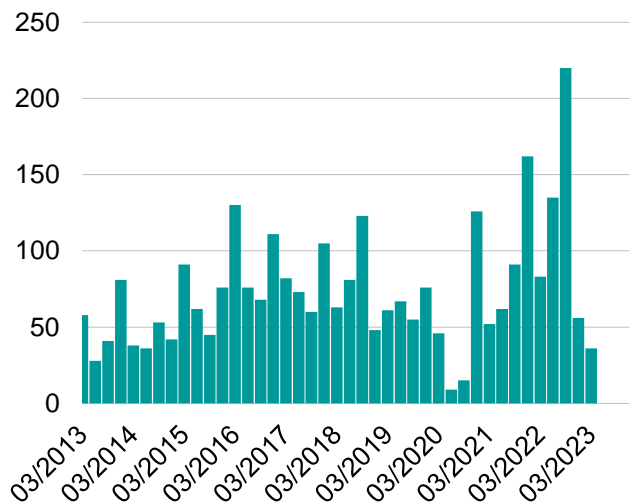
Transaction Activity Halted – For Now?

According to MSCI Real Assets, student housing apartment transaction activity has drastically slowed down compared to activity in 2022 and 2021. As a result of the current elevated interest rate environment, financing student housing properties has become much more expensive. Furthermore, market players have decided to hold on to student housing properties due to the continued bid/ask spread gap, as well as those property owners that have below-average mortgage rates. For the period ending Q1 2023, there were approximately 36 student housing properties traded for a total \$635 million. Compared to the same time last year, when 83 properties were traded for approximately \$2.9 billion, this represents a decrease of nearly 78% year over year. The last time that student housing activity stalled in a similar manner was during the first two quarters in which the pandemic was declared (Q2 2020 and Q3 2020). During these respective quarters there were 9 and 15 properties traded for approximately \$182 million and \$262 million in total volume. We believe that investors will continue to hold on to their student housing properties over the next 12 to 18 months at least, as they are likely not incentivized to sell with interest rates remaining elevated.

Sales Volume for Student Housing Properties Since Q1 2013



Student Housing Properties Traded Since Q1 2013



Source: MSCI Real Assets

Continued Stabilization Over the Short-Term, More Upside Longer-Term

The off-campus student housing sector has seen a resurgence in demand over the past two years, leading to elevated rent growth and occupancy levels, but that is not necessarily an indicator of future trends. New supply has continued to moderate, and fall 2023 is expected to see similar levels of new supply delivered. Gone are the days of 45,000-plus beds being delivered annually, as developers moved toward moderation.

We believe that there are short-term headwinds that will persist for the student housing sector. Fundamentals have been at peak levels for the third year in a row, and it is widely expected that this year may be the sector's apex. As supply continues to moderate, we expect fundamental performance will follow, slowing to a trend that resembles pre-2020 performance. The biggest headwind currently for student housing is the decreasing size of the college age population, coupled with higher tuition and student loan costs. However, we believe the longer-term outlook for the sector is brighter, as we expect interest rates to stabilize and the population cohort is expected to start increasing further out in the forecast. As a result, activity in the student housing transaction market could start picking up in the next year or two, as investors decide to get back into the market in anticipation of possible rising enrollment rates.



Multifamily Economic and Market Commentary

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June 2023

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