Multifamily Economic and Market Commentary

Fannie Mae

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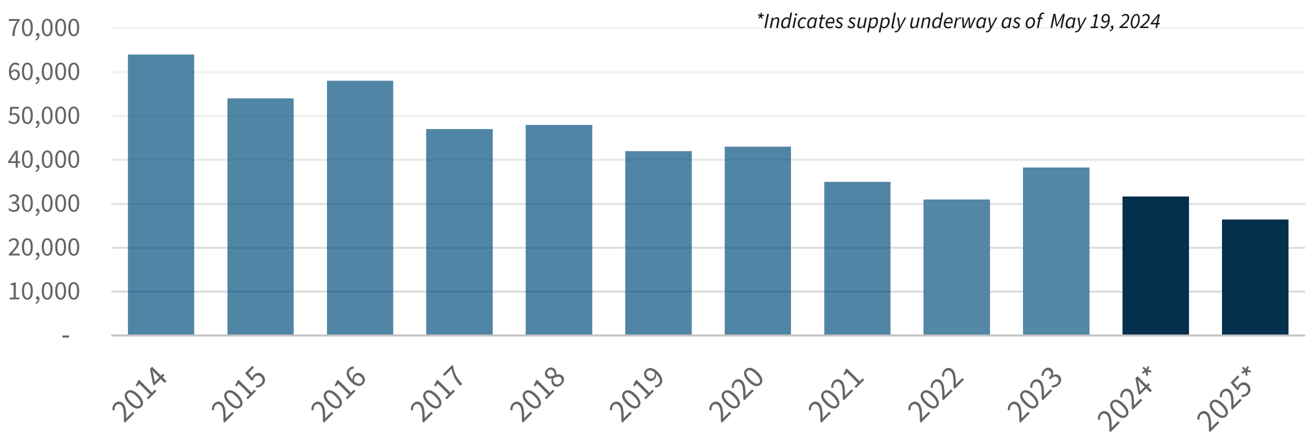
Spring 2024 Off-Campus Student Housing Update

The off-campus student housing sector had been riding a wave of improved demand after the sector worked its way through headwinds between the spring 2020 and fall 2021 semesters due to many campuses shutting down during the global pandemic. Even though demand stabilized beginning in the spring 2022 semester, the full-fledged recovery started in the fall semester of the 2022-2023 school year and during the record-breaking performance of the 2022-2023 school year.

As the spring semester of the 2023-2024 school year winds down, it is noticeable that fundamentals are slightly down compared to the same time last year and during the record-breaking year of fall 2022. Even though fundamentals' performance of off-campus student housing properties is slightly down, it is still above historical averages and pre-pandemic performance. Furthermore, due to the U.S. Department of Education's ongoing technical difficulties with its online financial aid application form, many students' decisions about where they will be attending school has been delayed, which has impacted early fundamentals, specifically pre-lease rates, for the 2024-2025 school year.

Student Housing New Supply Deliveries by Beds 2014-2025*



Source: RealPage Inc.
RealPage 175 Top Universities

Current Development Cycle Easing

The amount of new off-campus student housing supply being added to the existing inventory has been trending downward since 2016, as seen in the chart above. For the third consecutive school year, new supply has been under 40,000 new beds delivered. For the semester ending fall 2023, there were approximately 38,000 beds delivered. Furthermore, as of May 2024, fall 2024 and fall 2025 are expected to have approximately 32,000 and 26,000 new beds delivered, respectively.

The off-campus student housing sector was 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. According to RealPage Inc., during the 2010s development cycle (fall 2010-fall 2019), the average amount of new annual supply was approximately 50,000 beds. Since 2020, the amount of annual new supply has moderated greatly, hovering around 33,000 beds between fall 2020 and fall 2024.

The recently lower levels of annual supply is primarily a byproduct of the higher amounts of new supply delivered during the previous development cycle. As a result of the higher amounts delivered in the 2010s, supply quickly outpaced demand, especially as demographic trends stabilized. Furthermore, since late 2022, the current economic environment has greatly impacted current supply levels as higher interest rates, inflation, and labor constraints made development and financing more costly, leading many developers to pick their projects a little more carefully.

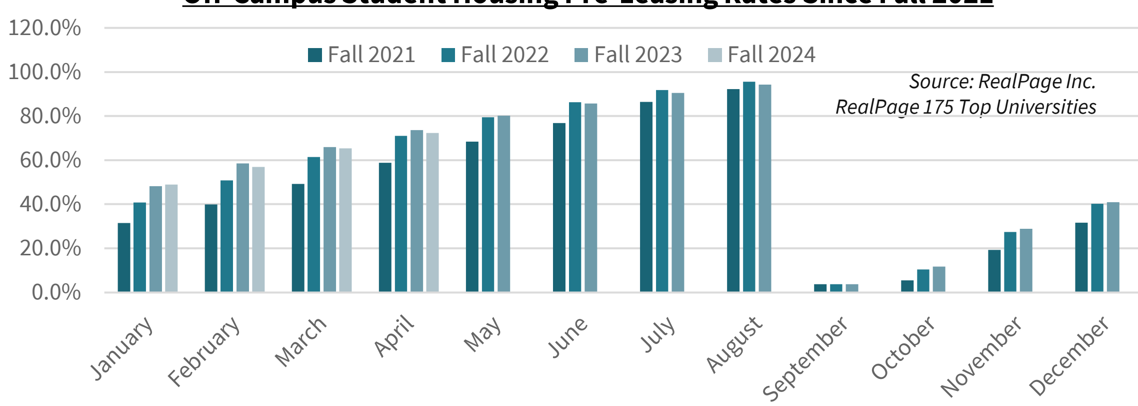
Early Returns on Fundamentals Down Slightly

For the last two school years beginning with the fall semester, off-campus student housing performance has continued to improve. Although it is still early in the year, fundamentals for the upcoming fall 2024 school year appear to be cooling compared to this same time last year, 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 2024 school year, pre-leasing began in September 2023. According to data from RealPage, Inc., pre-leasing for the fall 2024 school year, as of April 2024, reached approximately 72.3%. Compared to fall 2023, the pre-leasing rate for April 2023 had reached approximately 73.6%, which was the highest amount on record, at the time.

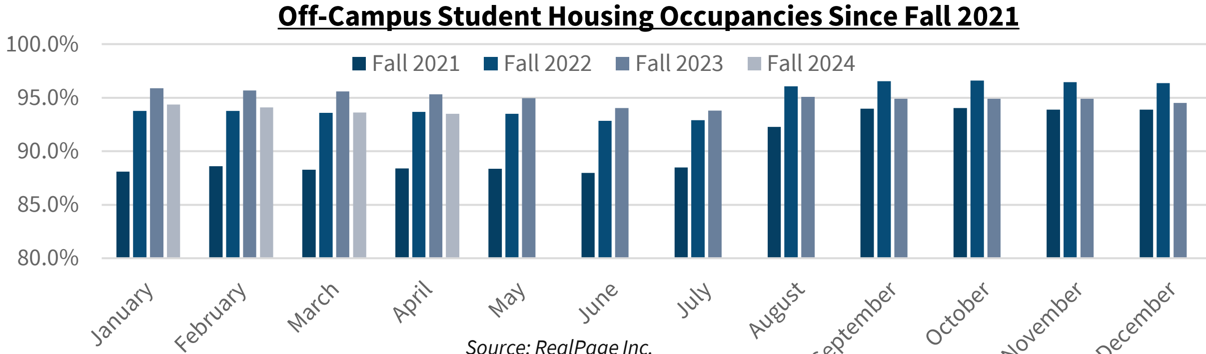
Additionally, as of April 2024, the occupancy rate for off-campus beds tracked by RealPage was approximately 93.5%, compared to 95.3% in April 2023. Even though occupancies are down slightly year over year, there still appears to be ample demand for off-campus student housing units; however, we believe much of that demand is already beginning to stabilize and could slow over the next few years. Longer term, however, the outlook is much brighter. Members of Generation Alpha, those born between 2010 and 2024, are estimated to be a larger cohort than the Millennials, thereby boosting college demand and attendance over the next decade.

One of the biggest reasons why off-campus student housing fundamentals are soft compared to the same time last year can be attributed to the DOE's ongoing technical difficulties with its online financial aid application form, the Free Application for Federal Student Aid (FAFSA). Some of these issues include a new simplified form that was not fully available to students until early January 2024, as well as a new financial aid award calculator based on the most current rate of inflation. These technical errors impacted nearly 20% of FAFSA applications, or nearly one million in total, according to an April 2024 article by CNN. Without a clear indication of how much financial aid students would receive, many were forced to delay acceptance decisions until the technical errors were remedied. As a result, many students who would normally partake in early decision or early action acceptances regarding school choice were forced to wait until the regular acceptance deadline, which is later in the spring season, keeping some of them from securing off-campus housing.

Off-Campus Student Housing Pre-Leasing Rates Since Fall 2021



Off-Campus Student Housing Occupancies Since Fall 2021



Source: RealPage Inc.
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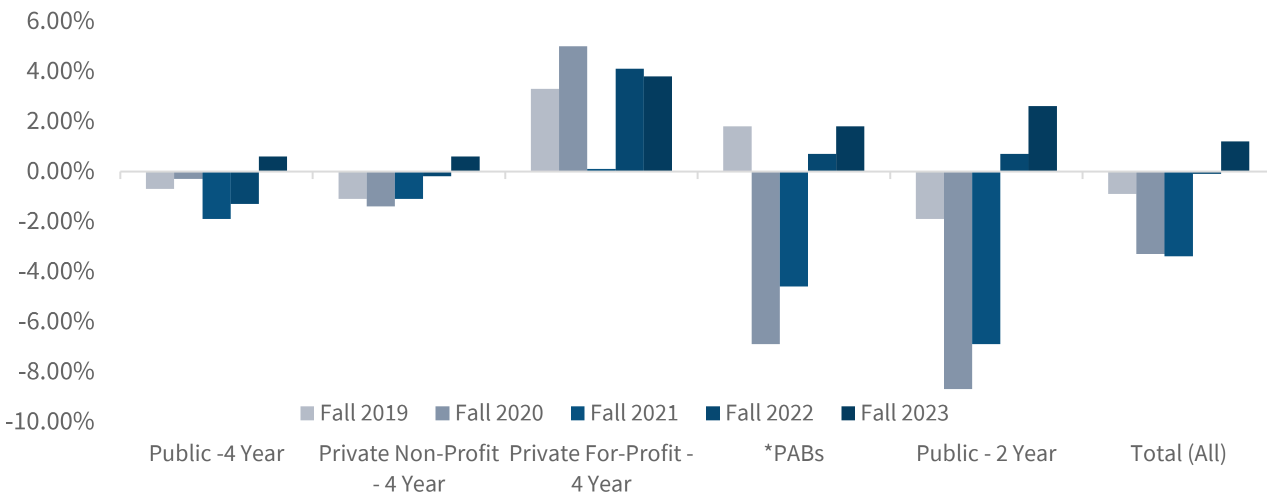
Enrollments Trending Upward in the Short-Term

According to the National Student Clearinghouse Research Center, as of fall 2023, total undergraduate enrollment increased by 1.2%. This is the first time in nearly five years that total undergraduate enrollment has trended positive. Typically, enrollment numbers have contracted for all undergraduate sectors, but now all sectors of undergraduate enrollment have expanded. The private-for-profit and public two-year sectors experienced the next highest levels of growth, at 3.8% and 2.6%, respectively.

The school years of fall 2020-2021 and fall 2021-2022 took a toll on enrollment rates as total undergraduate enrollments declined by 3.3% and 3.4%, respectively. This period was the peak of the global pandemic and some students who were slated to attend colleges and universities in the fall during those school years not only deferred acceptances to future school years but pivoted away completely from attending college. Enrollment began to rebound during the peak of economic performance in 2022, when total undergraduate enrollments declined approximately 0.1%. As economic uncertainty tends to keep both interest rates and levels of inflation relatively higher, we believe some students decided to attend college later with the hopes that the economy will stabilize during their tenure.

Undergraduate Enrollment % Changes Fall Semesters 2019-2023



Source: National Student Clearinghouse Research Center
** Institutions that primarily offer Associate degrees but also offer Baccalaureate degrees.*

Short-Term Gains Aiding Stabilization

The off-campus student housing sector continues to perform well above pre-pandemic norms. Even though fundamental performance for both pre-leasing and occupancy is down slightly compared to last year, this was expected even before the recent FAFSA-related issues. The fall 2023 school year was the best performing year on record for the student housing sector, leading to a more normalized trend for 2024.

Despite some of the hinderances impacting student housing fundamentals early on during this spring semester, we don’t believe there is much cause for concern as we get closer to the upcoming fall 2024-2025 school year. Fundamentals are on pace to perform just slightly below last school year’s record-breaking performance. An additional silver lining for the student housing sector is that total undergraduate enrollment growth across all sectors is positive for the first time, suggesting that some of the enrollment losses from the pandemic are being remedied. Going forward, new supply is expected to continue moderating, as expected totals for the upcoming school year, as well as those in the pipeline for 2025, are at their lowest levels since the development boom in 2013.

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