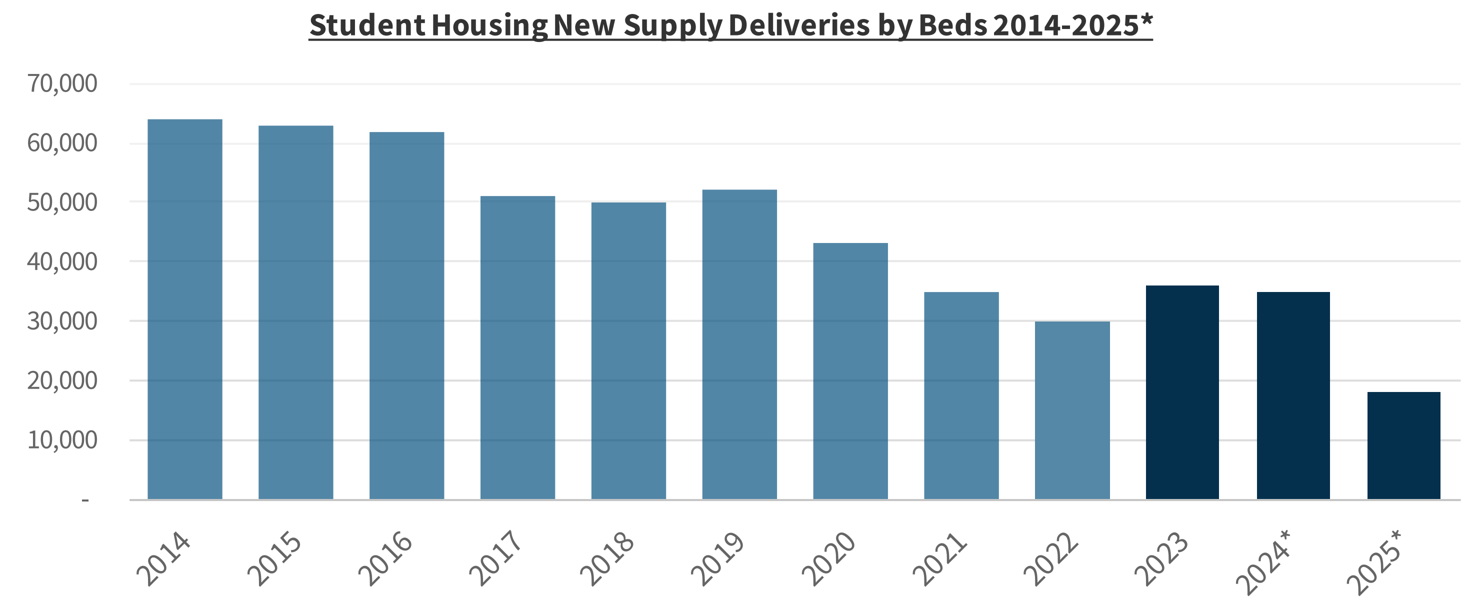
November 2023

Fall 2023 Off-Campus Student Housing Update

Last year, beginning fall 2022, was the first full year for the student housing sector without any lingering restrictions from the pandemic that had negatively impacted the sector in 2020 and 2021. As a result, the sector's fundamentals improved significantly. Now that the fall 2023 school year has started, that strength in demand has remained firmly in place, with fundamentals remaining stable.

Still, there are challenges facing student housing. Elevated interest rates and higher levels of inflation have contributed to making both financing and construction costlier than before. Perhaps more importantly, the sector is also facing ongoing enrollment constraints that could worsen as the cost of college tuition increases, and the pool of potential students continues to decrease due to a less-populous generation of college-age students.



Source: RealPage Inc.
**Indicates supply underway as of October 22, 2023*

A New Standard for New Supply

The amount of new off-campus student housing being added to the existing inventory has remained below 2016 levels, 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 36,000 new beds delivered. Furthermore, both fall 2024 and fall 2025 are expected to have approximately 35,000 and 18,000 new beds delivered, respectively.

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 a few years ago. Additionally, due to a combination of overall higher building material prices, higher wages, and ongoing construction labor constraints, many student housing developers have been narrowing their pipelines to focus on more timely projects that will deliver in the near term.

Furthermore, because interest rates have been elevated over the past several months, financing has become both more stringent and more expensive than previous years, keeping new supply in check. As a result, we expect 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 delivered between 2014 and 2018.

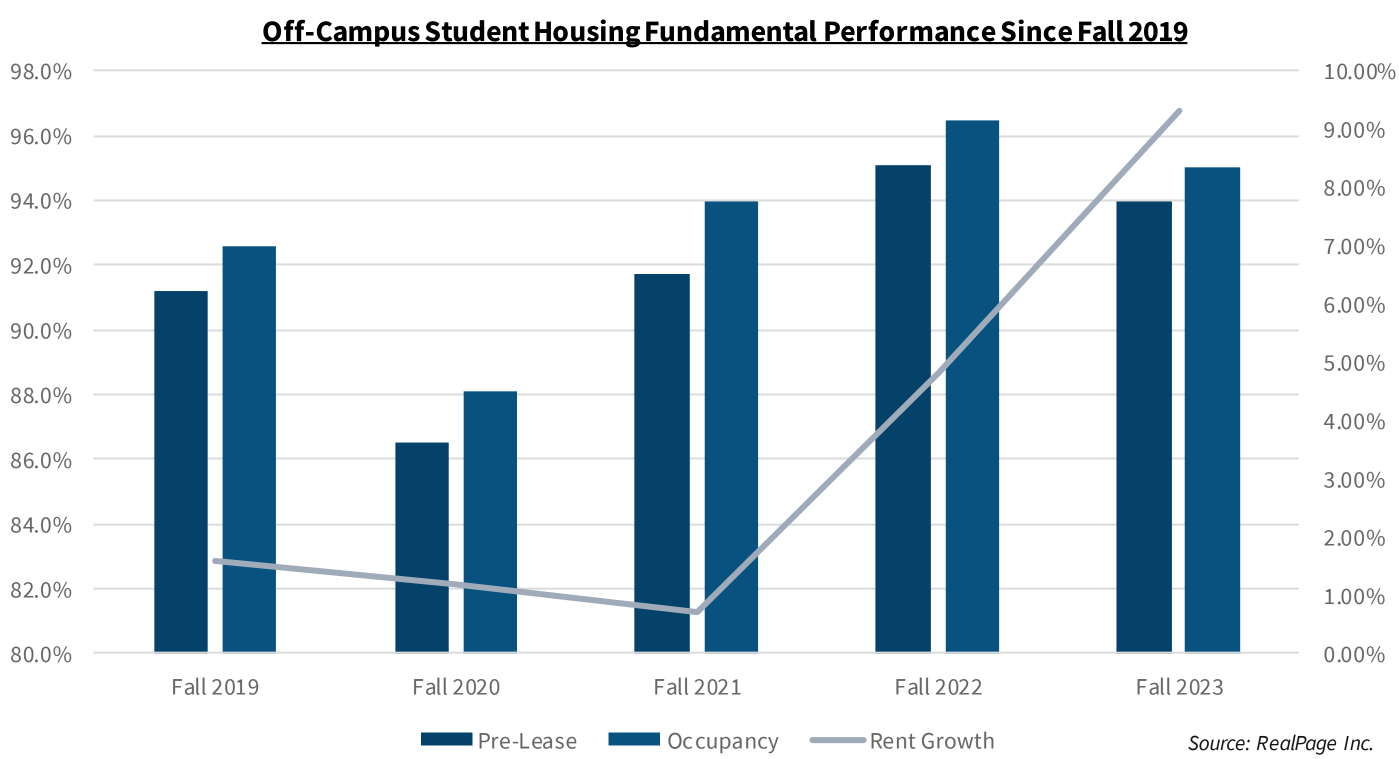
Fundamentals Still Performing Above Historical Averages

For the last two school years beginning in the fall semester, student housing performance in terms of pre-leasing and occupancy rate metrics has continued to improve. The newest school year, fall 2023, has seen these metrics still above historical averages, but slightly below the fall 2022 school year's record-breaking performance.

According to student housing data from RealPage, Inc., pre-leasing for the fall 2023 school year as of August 2023 was approximately 94%, a slight decline from fall 2022's pre-leasing rate of approximately 95.1%, which was the highest amount on record at the time. Interestingly, pre-leasing metrics for fall 2023 are also outperforming metrics that were achieved during fall 2019, which was pre-pandemic.

Occupancy rates also slipped slightly this school year. As of September 2023, the occupancy rate for off-campus beds tracked by RealPage was approximately 95%, compared to 96.5% in September 2022. There still appears to be ample demand for off-campus student housing properties; however, we believe that some of this demand is beginning to stabilize and will start to slow over the next few years. This is due to a myriad of factors, including the college student-age population size getting smaller, a slowdown in property transaction activity, and the rising cost of higher education, both in terms of tuition and school loan financing costs.

Additionally, due to the above-average rates of occupancy and pre-leasing occurring earlier in the school year, effective rent growth is at its highest level on record. For the period ending fall 2023, rent growth at off-campus student housing properties tracked by RealPage Inc. ended the year at 9.3%. The level of rents is nearly double the amount of rent growth achieved during last year's then-record high amount of 4.8% in fall 2022. However, it is unsustainable for rent levels to stay at these elevated levels. Therefore, for the foreseeable future, we expect rent growth will stabilize at a slightly lower level even as the amount of supply continues to moderate.

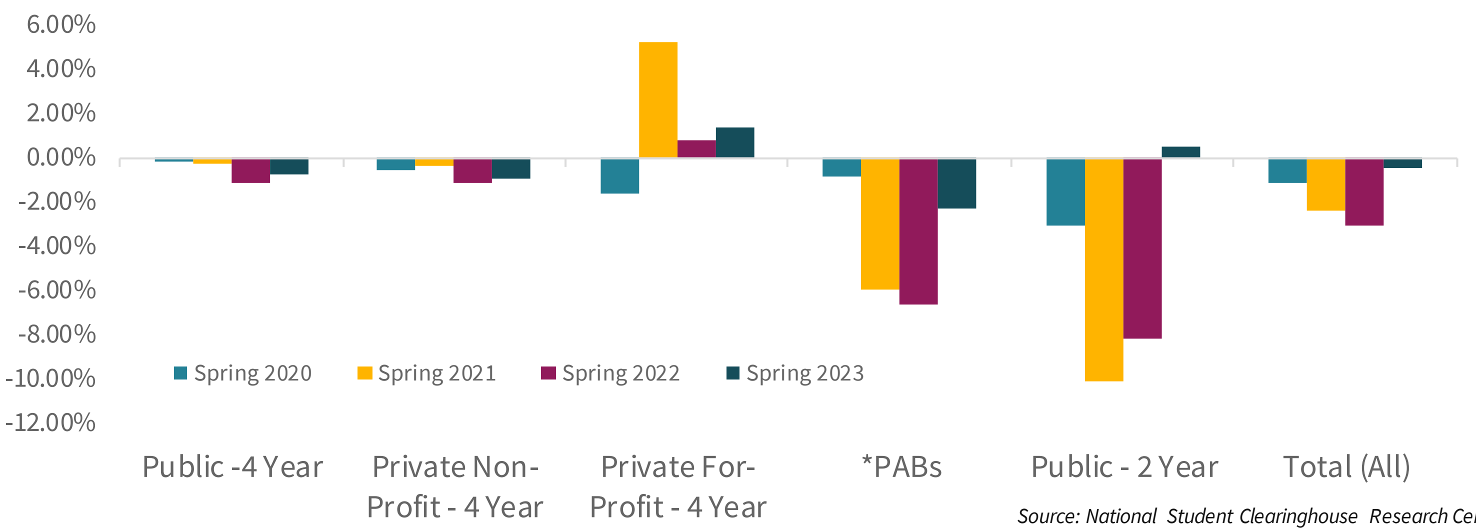


Enrollment Better but Still Contracting

According to the National Student Clearinghouse Research Center, as of spring 2023, total undergraduate enrollment declined by 0.5%. Although the number remains negative, this is the smallest rate of contraction in quite some time and an improvement compared to spring 2022, when undergraduate enrollments declined by 3.1%. While this is a much smaller decrease than in years past, it is uncertain whether this is the beginning of a new trend or if it is a short-term anomaly.

Currently, economic uncertainty – not only domestically but globally – is more pronounced than in years prior. In the past, growing shares of students enrolled in higher education to broaden their future employment prospects, but that assumption might not be valid going forward. Even with the smaller decline in annual enrollments, there are still some factors working against a potentially larger applicant pool, including rising tuition costs, fewer high school graduates deciding to attend college, and most especially, the less populous Gen-Z aged cohort compared to the sizeable Millennial one.

Undergraduate Enrollment Changes Spring Semesters 2020-2023



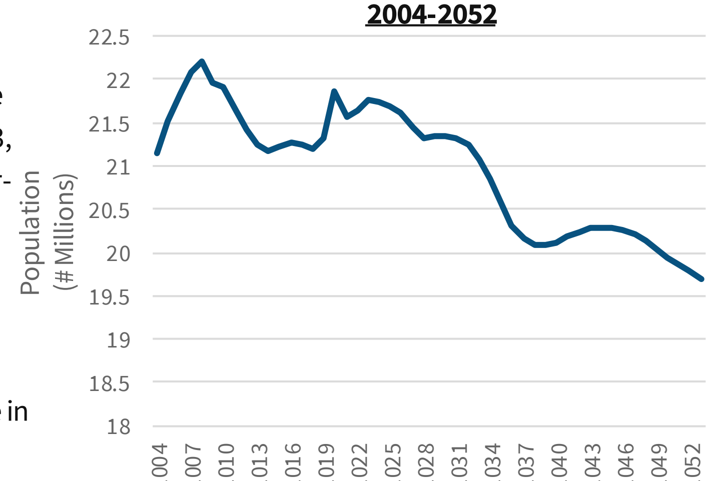
Source: National Student Clearinghouse Research Center
**PABS - Primarily Associate Degree Granting Baccalaureate*

Decreasing High School-Aged Population Expected to Impact Student Housing Demand Longer Term

According to Census Bureau data, the age of the high school-attending cohort, aged 15-19-years-old, is expected to decline by nearly two million people over the next 30 years. As of 2023, there are approximately 21.8 million people in the 15–19-year-old cohort and by 2052 that number is expected to drop to nearly 19.7 million.

Although a decline of two million may not seem like much relative to the population of the United States, a smaller potential applicant pool is expected to contribute to a decline in overall student housing demand, exacerbating already contracting enrollment patterns at higher learning institutions post high school.

U.S. Population of 15–19-Year-Olds 2004-2052



Source: U.S. Census Bureau

Supply Leaders Then and Now

Since the off-campus student housing development cycle took of in the early 2010s, there has been some consistency among certain universities regarding new annual supply. When development began to increase, most of the schools receiving this new annual supply were located in the South, specifically Texas and Florida. The main reasons being that it was much cheaper and there were fewer roadblocks to constructing new developments in those states. From 2010 to 2019, among the top 15 recipients of new annual supply, six of the universities were in either Florida or Texas and 12 of the 15 schools were located elsewhere in the southern region of the U.S.

However, in the 2020s, the usual suspects regarding annual supply are much different from the previous cycle. Since many of the southern universities, specifically the schools located in Florida and Texas, have since become oversupplied, developers have shifted course and started to construct elsewhere. In fact, the only schools that were part of the previous cycle and remain in this current development cycle are the University of Texas-Austin and the University of Florida. With annual supply continuing to moderate each new school year, it will be interesting to see which schools end the current cycle as the supply leaders. For now, The Georgia Institute of Technology (Georgia Tech) is the top school in annual supply.

2010s Development Cycle Leaders		2020s Development Cycle Leaders	
University	Rank	University	Rank
Texas A&M	1	Georgia Tech	1
Florida State	2	Washington	2
UT- Austin	3	Indiana	3
Texas State	4	Maryland	4
Baylor	5	Florida	5
Illinois	6	Nevada - Reno	6
Florida	7	UT - Austin	7
Alabama	8	Central Florida	8
South Carolina	9	Wisconsin - Madison	9
Minnesota	10	Georgia	10
Mississippi State	11	Northern Arizona	11
Arizona State	12	Clemson	12
Iowa	13	Penn State	13
Arkansas	14	Virginia Tech	14
Tennessee	15	Florida International	15

Source: RealPage Inc.

Moderation is Good for Fundamental Performance

Even with the continued improved performance of student housing fundamentals, there are still headwinds facing the sector. With a declining college student age population expected in the near term, coupled with higher education costs, a decline in new supply will likely help stabilize the sector over the long term. In the interim, however, we expect the student housing sector to remain stable, as moderating supply will continue to help keep demand fundamentals in place. We also expect the current lending environment, with elevated financing and project costs, to keep the sector from becoming oversupplied, helping keep demand and supply in balance over the short term.

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