Fannie Mae

Multifamily Market Commentary – November 2018

The Fall 2018 Student Housing Update

Executive Summary

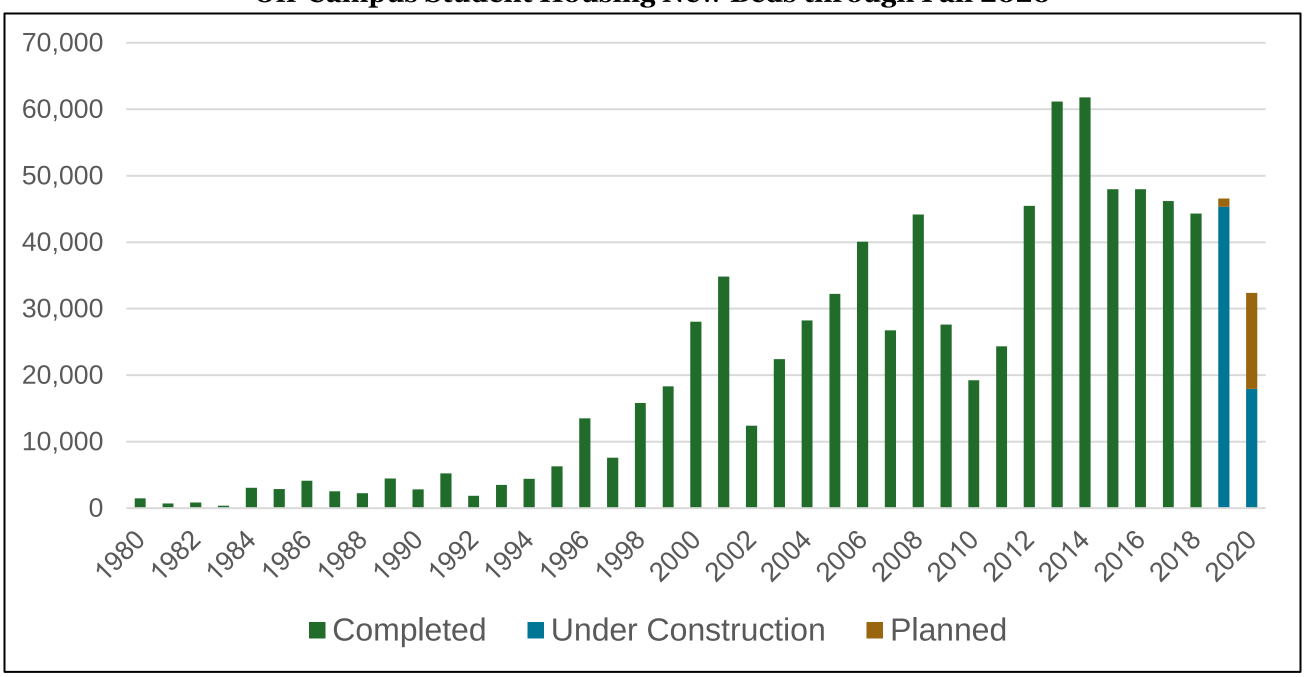
- The number of off-campus student housing beds delivered each school year has been decreasing since 2014, but a small uptick is expected for the fall 2019 school year.
- Properties closest to campus have stronger annual rent growth than those that are further away. For the fall 2018-2019 school year, properties less than 0.5 miles from campus had approximately 1.7 percent effective rent growth year over year.
- Some universities are expected to see a dramatic increase from their fall 2018 supply to their fall 2019 supply.
- Shortage of labor for new construction is an emerging issue.

Slight Uptick in Supply for Fall 2019

The number of off-campus student housing beds delivered each school year has decreased since 2014. However, for the fall 2019 school year, the sector will see a small uptick in supply, with about 46,600 beds in the pipeline, an increase of 5.2 percent compared to the previous school year.

During the fall 2018 school year (as of August 2018) approximately 44,300 beds were delivered nationwide, which represents a 4.3 percent decrease in supply compared to fall 2017's 46,200 delivered beds. For the upcoming school year, the new supply of off-campus student housing supply is expected to increase for the first time in a few years.

Off-Campus Student Housing New Beds through Fall 2020



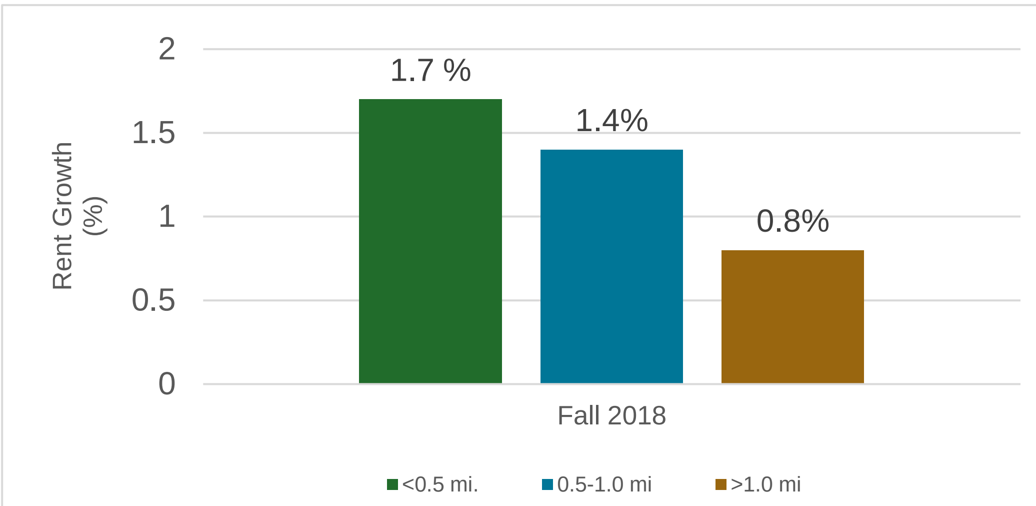
Source: Axiometrics, a RealPage Company

Rent Growth Proximity to Campus

A popular real estate aphorism is that location is everything, and it's certainly important to student housing. Often, when students are not granted on-campus housing, they are left scrambling to sign leases at rental properties that are as close to campus as possible.

According to Axiometrics, properties closer to campus have better annual rent growth than those that are further away. As shown in the table below, for the fall 2018 school year, the greatest year-over-year effective rent growth was for properties fewer than 0.5 miles from campus at 1.7 percent.

Annual Effective Rent Growth for Off-Campus Student Housing Properties by Distance



Source: Axiometrics, a RealPage Company

Enter the New Generation of Students

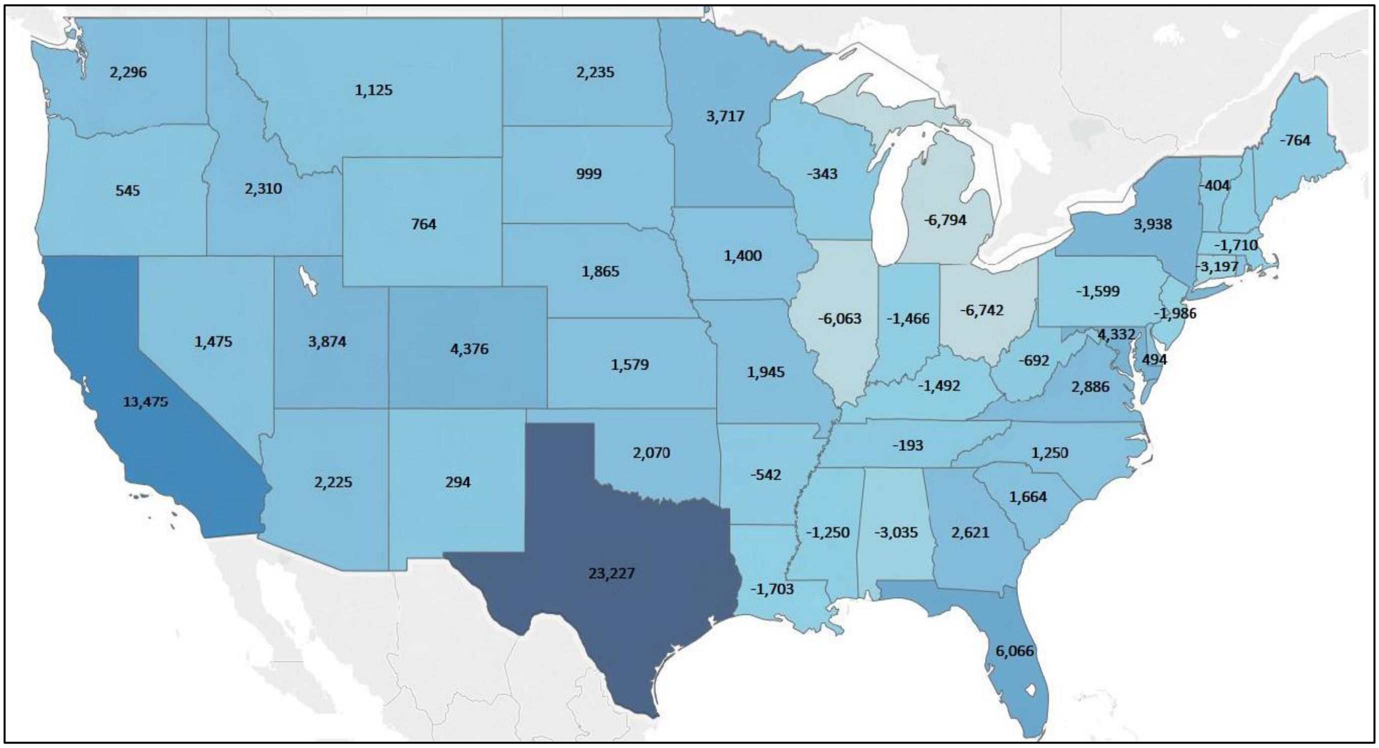
Much of the industry chatter in the student housing sector has revolved around the emergence of Generation Z (Gen Z). Gen Z is made up of those born after 1999. Unlike the previous generation, the Millennials, the population of Gen Z is much smaller.

According to the Western Interstate Commission for Higher Education (WICHE), over the next five years, there will be a negative change in the number of high school graduates in 17 states, as seen in the map on the next page. This finding is in line with the assertion that Gen Z's population is much smaller than the Millennial generation and that peak college enrollment might have already occurred during the Millennial generation. A decrease in the number of students attending college will likely negatively impact the demand for off-campus student housing as less—primarily new—supply is needed.

Over the next five years, through 2023, most of the negative total change in the number of high school graduates is expected to take place in the Midwest. Michigan is forecasted to have 6,794 fewer high school graduates over the next five years, followed by Ohio with 6,742 fewer. Rounding out the top three states losing the most high school graduates through 2023 is Illinois with an estimated 6,063 fewer.

The expected total change in the number of high school graduates through the 2023 forecast is significant as the first wave of Gen Z students entered college this fall semester. According to both the National Center for Education Statistics (NCES) and the National Student Clearinghouse Research Center (NSCRC), postsecondary enrollment has decreased annually since 2010 by approximately 9 percent for full-time enrollment and 3 percent for part-time enrollment. Decreasing enrollment during the more populous Millennial generation does not bode well for enrollment growth for the smaller Gen Z cohort.

Expected Total Change in High School Graduates by State from 2018-2023



Sources: Axiometrics, a RealPage Company & Western Interstate Commission for Higher Education (WICHE)

Supply at Select Universities

With supply decreasing nationwide for the third consecutive year, there are some familiar universities that are still among the top recipients of new deliveries. According to Axiometrics, Texas and Florida universities are amongst the top recipients of new deliveries for the fall 2018 school year, as seen in the tables below.

Florida State University was the top recipient of new beds, receiving 2,707 beds for the new school year. Texas A&M University was the second-highest recipient in regards to supply for the new school year, receiving 2,487 beds. Rounding out the top three was the University of Central Florida with 1,495 new beds.

There are some universities that are expected to see a dramatic increase from their fall 2018 supply to their expected fall 2019 supply. According to Axiometrics, the University of Illinois-Urbana Champaign will see a whopping 2,303 percent change in supply between fall 2018 and fall 2019. This is because the university has received 65 new beds for the fall 2018 school year and is expected to receive 1,562 beds in the fall 2019 school year. Not surprisingly, some of the top receivers of new supply are also among the universities expected to see a decrease in total new supply compared to the next school year. Florida State University and University of Texas-Austin are expecting a decline of 39 percent and 7 percent, respectively. These universities are among the top recipients of new supply annually and the expected supply amounts for fall 2019 are slightly lower than fall 2018.

2018 Supply at Top 20 Universities

University	# of Beds
Florida State	2,707
Texas A&M	2,487
University of Central Florida	1,495
University of Texas - Austin	1,483
East Carolina	1,283
University of Texas - Arlington	1,282
Pennslyvania State	1,261
University of Michigan	1,247
Indiana	1,228
University of Mississippi	1,186
Colorado State	1,165
University of Minnesota	1,157
Syracuse	1,079
Iowa State	1,062
University of Tennessee	1,034
Coastal Carolina	994
California State University - Chico	907
University of Texas - Dallas	900
Univeristy of North Carolina - Charlotte	887
Arizona State	775

Source: Axiometrics, a RealPage company

Percent Change in Supply from Fall '18 & Fall '19

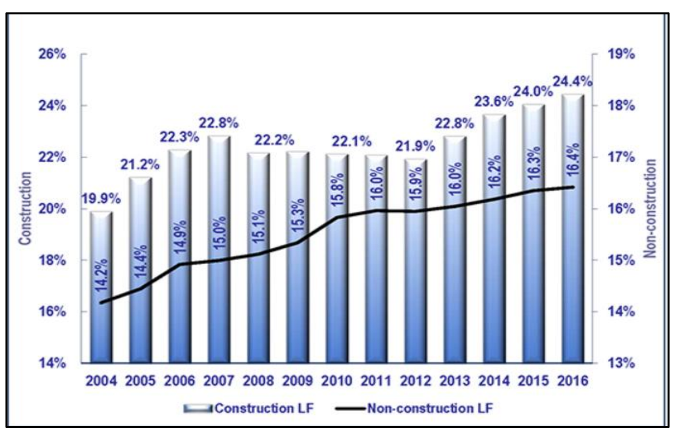
University	% Change in Supply
Univeristy of Illinois - Urbana Champaign	2303%
Montanta State	582%
Missouri State	391%
Purdue	263%
Texas State	221%
Clemson	45%
Univeristy of Florida	44%
Northa Carolina State	43%
University of South Florida	39%
Northern Arizona	10%
Univeristy of Texas - Austin	-7%
Ohio State	-22%
Georgia Institute of Technology	-31%
Florida State	-39%
University of Texas - Arlington	-46%
University of Iowa	-49%
East Carolina	-53%
University of Montana	-58%
Colorado State University	-63%
California State University - Sacramento	-64%
University of Michigan	-81%

A Big Potential Issue for the Industry

Even though the student housing sector is performing well, there are some issues. Some of the standard headwinds persist, including oversupply, declining enrollment, and increased competition. However, there is an emerging issue that could potentially be bigger than all of the aforementioned: the labor shortage impacting new construction.

The construction industry is facing a labor shortage that is impacting not only student housing but all types of real estate, and immigration may be a factor. According to the National Association of Homebuilders, immigrants make up almost a quarter (24.4 percent as of 2016) of the construction labor force in the United States. The total number of new immigrants entering the construction labor force is down significantly from the housing boom years. Construction jobs are getting harder to fill as the number of workers is significantly decreasing and fewer young people are looking to the industry as an alternative to postsecondary school.

Share of Immigrants in US Labor Force Since 2004



Source: 2004-2016 ACS & NAHB

Keeping an Eye on Supply

The student housing sector continues to see new annual supply. Deliveries have decreased annually for the past few years; however there is expected to be a slight uptick in supply for the fall 2019 school year. The performance of the sector has allowed fundamentals to also perform well and remain positive.

The current fall 2018 school year is a big year for the sector as the Millennial generation is replaced by Gen Z, a less populous cohort, as the new arrivals on campus. The industry also has to face the ongoing construction labor shortage. Still, the sector is in good shape and is expected to remain stable, as long as supply does not ramp up to 2013 and 2014 levels.

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