

# Multifamily Market Commentary – December 2012

## Student Housing Makes the Grade

As college enrollment continues to climb, there is an increasing demand for student housing, according to the National Center on Education Statistics. The number of on-campus and university-financed properties does not appear to be sufficient to meet current and future needs and, with state-level cutbacks and anemic endowments, institutions are challenged to finance capital projects. Real estate investment trusts (REITs), such as the publicly-traded Education Realty Trust Inc. (EdR) and American Campus Communities, are stepping into this space by leasing land from universities and financing, developing, and operating new or renovated student housing. These private/public partnerships are becoming increasingly common arrangements. Universities recognize student housing requires a highly specialized operating platform, usually well outside their core competencies of education and research. Meanwhile, developers want access to locations that are nearest to campus – land that tends to be owned by the universities.

Many of these new student housing projects cater to high living standards (e.g., cable and high-speed internet, private bathrooms, and fitness centers), while traditional dormitories that lack these amenities are on the wane. Investment in new student housing projects has grown in recent quarters creating a booming sector of the multifamily housing market.

### Transaction Volume Up Significantly

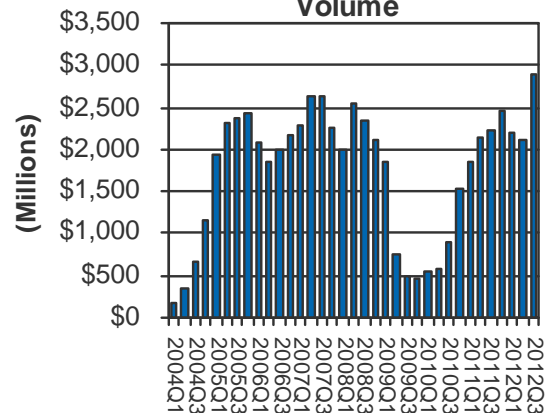
As shown in the first chart adjacent, the rolling 12-month student housing sales transaction volume hit a new high of \$2.9 billion in the third quarter of 2012 due largely to a strong third quarter transaction volume of more than \$1.2 billion. The third-quarter year-over-year rolling 12-month student housing transaction volume is up 30 percent above year-over-year second quarter 2012 volumes and exceeds the \$2.6 billion annual levels seen during the market's heyday in 2007. According to Real Capital Analytics, fourth quarter 2012 is on pace to top \$1.3 billion, bringing the projected transaction volume for calendar year 2012 to more than \$3.0 billion, a new record for student housing.

During the past 24 months, the three top buyers of student housing include the public REIT American Campus Communities with \$2.0 billion in acquisitions on 45 properties; the private equity fund Kayne Anderson with approximately \$500 million on 19 properties; and the public REIT EdR with approximately \$350 million on 12 properties. Kayne Anderson also was one of the top three sellers during the past 24 months disposing of just over \$800 million on 19 properties. However, it remains bullish on the student housing sector, as reflected in its decision to replace those sold with more student housing properties.

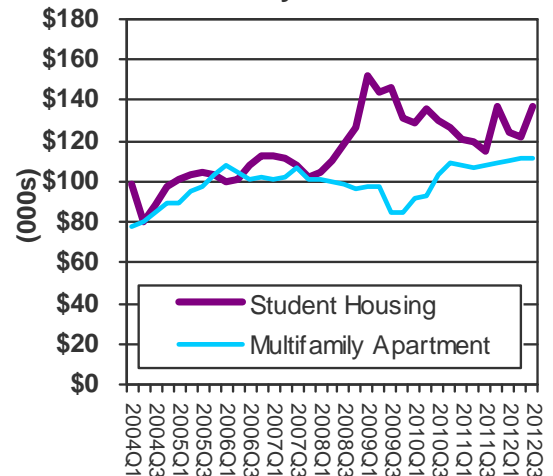
### Prices Up Over the Last Year

While student housing sales volume is up compared to last year, the increase is based on a smaller number of properties and units. As a result, the trailing 12-month average of \$137,000 as of the third quarter of 2012 was up 20

Rolling 12-Month Quarterly Sales Volume



Quarterly Price Per Unit



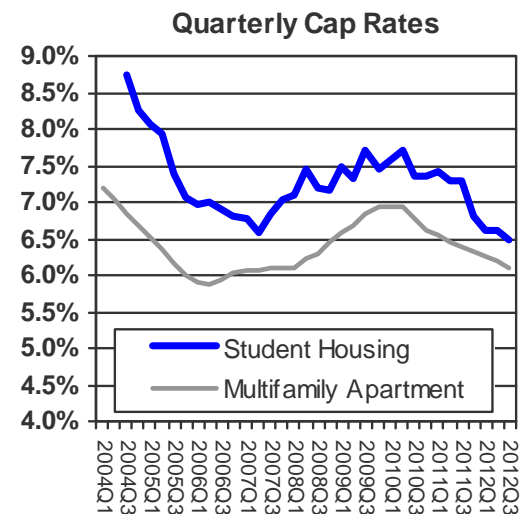
Source: Real Capital Analytics,  
\*Data based on 12-month rolling average

percent from the second quarter of 2012 as shown in the chart above. While this is lower than the approximately \$150,000 price per unit seen during most of 2009, it exceeds prices seen for most of 2010 and 2011.

Until the start of 2008, the student housing price per unit tracked pretty closely to the price per unit for the U.S. multifamily apartment sector, as shown on the previous chart. Since then, the price per unit has continued to climb, with the greatest difference occurring in the third quarter of 2009 when the average price per unit for student housing was approximately \$147,000, approximately \$62,000 higher than the multifamily apartment price per unit. The increase in 2008 was driven mainly by a few significant sales transactions: Touro College purchased two properties in Manhattan at more than \$500,000 per unit and ASB Capital acquired Dwight Lofts in Chicago for \$421,000 per unit. The spike in 2009 also was due to a few significant transactions: Westar acquired Tuscany in Los Angeles for \$625,000 per unit and also acquired Habitat Soozee near USC at \$400,000 per unit. During the past few years, mid-rise and high-rise transactions have grown as a percentage of total student housing transaction volume while garden apartment transactions have fallen. This would also tend to elevate the student housing price per unit since mid-rise and high-rise apartments trade at a higher price per unit than do garden apartments.

### Student Housing Cap Rates Falling

Capitalization rates for student housing have historically exceeded multifamily rental market rates, as shown on the adjacent chart. From 2004 - 2006, student housing cap rates exceeded multifamily rates by an increment of 1.3 percent on average. Traditionally, dedicated student housing is perceived to be riskier and require more day-to-day management, thereby attracting fewer investors. However, since 2007, student housing cap rates have been closing the gap and moving closer to multifamily rates. As of the third quarter of 2012, the average student housing cap rate was 6.5 percent, down slightly from 6.6 percent in the first and second quarter of 2012. That is just an increment of 0.4 percent higher than the national average multifamily cap rate, and the smallest gap to date.



Source: Real Capital Analytics, \*Data based on 12-month rolling average

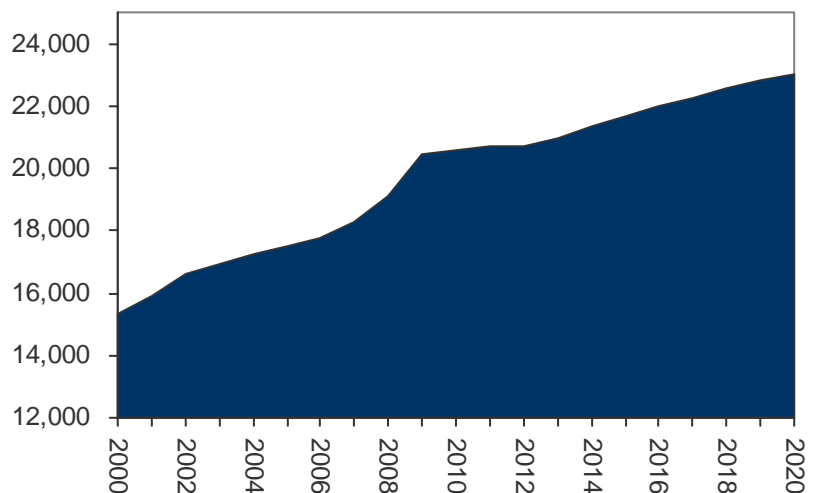
### Demand for Student Housing Expected to Remain Strong

Total college enrollment is forecasted to continue to grow through 2020 based on rising enrollment rates, according to the Department of Education's National Center for Education Statistics (NCES).

Enrollment increases since 2000 are due to a combination of population growth and rising enrollment rates. Between 2000 and 2010, the number of 18- to 24-year-olds increased by 12 percent to 30.7 million. During the same period, college enrollment for the age segment rose from 35 percent to 41 percent.

Looking ahead, the Census Bureau forecasts that the 18- to 24-year-old segment of the population will grow by 104,000 (0.3 percent) between 2010 and 2020. Meanwhile, total enrollment in postsecondary degree-granting institutions is expected to increase by an additional 2.6 million students or 13 percent, to 23 million students from 2009 to 2020, according to the NCES.

Total Enrollment in Postsecondary Degree Granting Institutions 2000-2020 (in 1,000s)

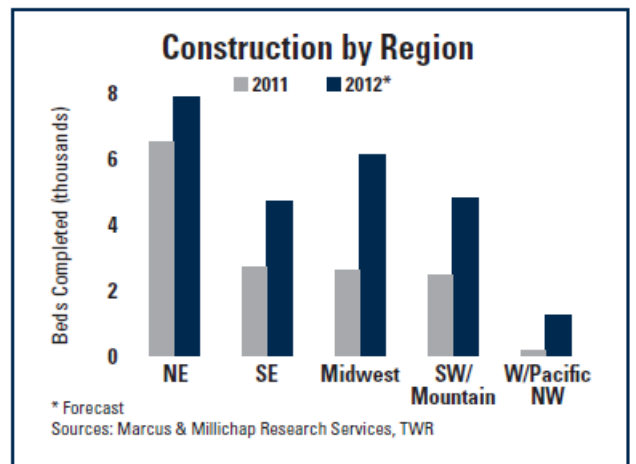


Sources: U.S. Department of Education, National Center for Education Statistics

## New Supply Is Picking Up

The National Student Housing Council, an arm of the National Multi Housing Council (NMHC), conducted a recent study of which states have developed the greatest supply/demand imbalances. As of 2009, their study concluded there could have been a nationwide shortage of dormitory beds amounting to as much as 300,000. However, it is likely that this potential shortage has already declined as private off-campus and Joint Venture developers stepped in to fill the gap.

Approximately 14,400 beds were added to the market in 2011, according to a report by commercial real estate broker Marcus & Millichap. Nearly double that – 27,800 beds – are expected to complete construction and come online this year. Overall, Marcus & Millichap estimates that 69,000 beds are under way.



While there appears to be room for additional student housing on a national basis, construction activity varies by region and the potential supply deficit varies greatly by state. According to the recent National Student Housing Council study, while many states have shown some degree of deficit, five states were able to maintain the same percentage of students living in dorms: California, Florida, Hawaii, Maryland, and Utah. This indicates that not all states are experiencing a supply shortage, and as a result, veteran market participants would do well to keep an eye on new supply coming online locally.

As seen in the bar graph above, construction totals are expected to increase in 2012 relative to 2011 levels and across all regions. In the Northeast, developers are bringing 7,800 beds on line, which is a 20 percent increase from last year's addition of 6,500 beds. The Northeast region will account for approximately 28 percent of this year's new development. The Southwest/Mountain region, which includes Arizona and Nevada, will receive 4,800 beds, which is double the 2,400 beds delivered in 2011. In the Pacific/Northwest region, though development has jumped more than six-fold from approximately 160 beds in 2011, high construction costs are forcing developers to temporarily postpone additional projects.

## How to Earn Good Grades in Coming Years

Student housing should continue to be in good shape for the foreseeable future, with increasing enrollment trends driving demand. The private market is proving that it can fill a growing need. Budget-constrained universities will likely increasingly rely on the private sector to develop new student housing projects as well as help renovate existing properties. However, there is some concern about the mix of student housing coming online. As noted earlier, some of these new student housing projects provide popular amenities, such as cable and high-speed internet, private bathrooms, and fitness centers. However, some newly constructed student housing properties offer amenities with a decidedly upscale twist.

According to a recent *Wall Street Journal* article, "Resort Living Comes to Campus," some of the additional amenities being offered include walk-in closets, tanning beds, putting greens, granite countertops, and stainless steel appliances. The rents for these new upscale units can significantly exceed traditional dormitory housing. According to the same article, in one striking example, the cost for a traditional, two-person dorm room on the University of Florida at Gainesville campus is approximately \$550 a month. By contrast, the university's off-campus student housing at the University House apartments runs just under \$700 per person for a two-bedroom, two-bathroom apartment and can run even higher – about \$1,000 – if a student wants to live alone in a one-bedroom apartment.

However, it appears that students may only pay up to a point for amenities, according to the article. The Sterling Central student housing property, located just off the University of Florida Gainesville campus, has four pools and a 32-inch flat screen television in every bedroom. Nevertheless, its occupancy declined to 86 percent this year from 98 percent last year after the newer University House apartments opened.



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