



Multifamily Market Commentary – October 2017

Fall 2017 Student Housing Market Update

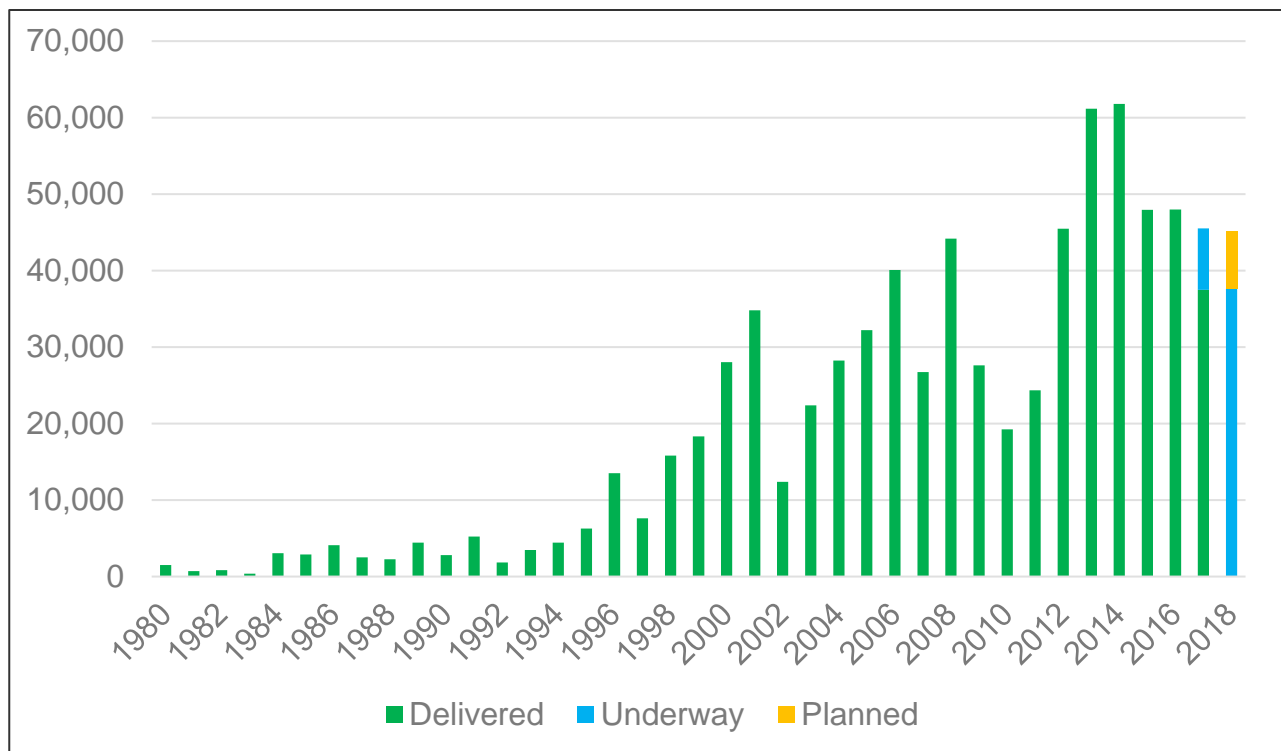
For the third consecutive school year, the supply delivered to the off-campus student housing market remains subdued compared to just a few years earlier. Supply in the student housing sector is defined by the number of beds since rent is charged on a per bed basis. During the school years of 2013 and 2014, the student housing sector had approximately 123,000 new beds delivered. New deliveries slowed down immensely in 2015 and have moderated for the third consecutive year. Since 2015, approximately 144,000 beds have delivered, compared to the 123,000 beds delivered in 2013 and 2014. According to student housing data from multifamily research firm Axiometrics, a RealPage company, approximately 45,500 beds will be delivered nationwide in the 2017-2018 school year. The plateauing of student housing supply is expected to continue next year in the 2018-2019 school year, with just 45,200 beds in the pipeline.

A Slowdown in Deliveries

During the 2015 and 2016 school years approximately 48,000 new beds were delivered each year, respectively. The amount of beds delivered in 2015 and 2016 was a far cry from the 62,000 beds delivered in 2014. Approximately 45,500 beds are expected to be delivered for the 2017-2018 school year. Of this number, approximately 37,500 beds have been completed and an additional 8,000 beds are still under construction and scheduled to deliver before the end of the school year.

It appears that new student housing deliveries in 2018 will remain stable for the fourth consecutive year in a row. For the 2018-2019 school year, there are approximately 45,200 beds in the pipeline, which is just 300 fewer than the expected supply for the 2017-2018 school year. After a few years of elevated student housing deliveries, it appears that sub-50,000 bed deliveries are the new normal.

Off-Campus Student Housing Beds – Delivered, Underway, and Planned



Source: Axiometrics, a RealPage Company



Fall 2017 Fundamentals – Some Winners but Also Some Losers

The new school year brings new updates on the fundamentals of the student housing sector. According to Axiometrics, approximately 73 universities received new supply for the fall 2017 school year. Furthermore, of the 73 universities that received new supply during that time, only 23 of those universities are expecting additional supply in fall 2018.

In regards to effective rent growth, both the University of Nevada-Reno and Bowling Green State University achieved the highest year-over-year rent growth rates at 8.2 percent and 7.8 percent, respectively. However, of the two, only the University of Nevada-Reno had a new supply of 530 beds for the fall 2017 school year. The occupancy rates at these universities were also close to full at approximately 99 percent and 98.7 percent, respectively. The limited amount of supply delivered to these universities allowed the schools to work through and moderate their supply from the previous school years.

However, not all of the universities enjoyed positive fundamentals. Both Texas A&M University and Texas Tech University are among the universities that receive an abundant amount of supply annually, according to data from Axiometrics. For the fall 2017 school year, approximately 6,070 beds were delivered to these universities, which accounted for approximately 13.4 percent of all new supply delivered. The high amounts of supply delivered explains why the schools are experiencing a softening of their fundamentals. The occupancy rates at Texas A&M University and Texas Tech are approximately 84.3 percent and 84.1 percent, respectively. As a result of the copious amounts of supply and the low occupancy rates, rent growth is contracting at -4.8 percent and -5.5 percent, respectively.

Some of the nation's universities with the highest and lowest effective rent growth rates can be seen in the table below.

Fall 2017 Off-Campus Student Housing Fundamentals – Select Universities

University	Occupancy Rate Aug. 2017	Prelease Change		Effective Rent	Effective Rent Growth	New Supply 2017	New Supply 2018
		from August 2016	Effective Rent				
University of Nevada - Reno	99.0%	0.2%	\$ 609	8.2%	530		
Bowling Green State University	98.7%	0.9%	\$ 365	7.8%			
University of North Carolina	95.6%	-1.3%	\$ 775	6.4%			
California State University - Sacramento	98.4%	-1.6%	\$ 738	6.3%		750	
University of Notre Dame	95.3%	-1.4%	\$ 780	6.0%			
Auburn University	99.6%	0.8%	\$ 553	6.0%	528		
Georgia Institute of Technology	100.0%	0.0%	\$ 948	5.8%		765	
University of Texas at Austin	97.3%	-2.1%	\$ 914	5.4%		1,486	
San Diego State University	95.7%	-2.2%	\$ 807	5.4%			
University of Central Florida	100.0%	0.0%	\$ 688	5.4%		481	
Ball State University	85.7%	8.9%	\$ 513	-1.8%			
Louisiana State University	81.8%	-4.9%	\$ 615	-1.9%	745	811	
University of Missouri	83.5%	-6.7%	\$ 547	-2.2%	1,409		
Oklahoma State University	94.0%	6.3%	\$ 520	-2.4%		475	
University at Buffalo - State University of New York	100.0%	3.0%	\$ 725	-2.7%			
West Virginia University	89.5%	-5.5%	\$ 543	-3.5%	61		
Minnesota State University - Mankato	99.8%	0.8%	\$ 399	-4.8%			
Texas A&M University	84.3%	-6.1%	\$ 641	-4.8%	2,336	2,494	
Texas Tech University	84.1%	-11.0%	\$ 569	-5.5%	3,734		
University of Nebraska - Lincoln	92.3%	7.1%	\$ 584	-6.1%			

Source: Axiometrics, a Realpage Company



Hurricane Harvey's Impact

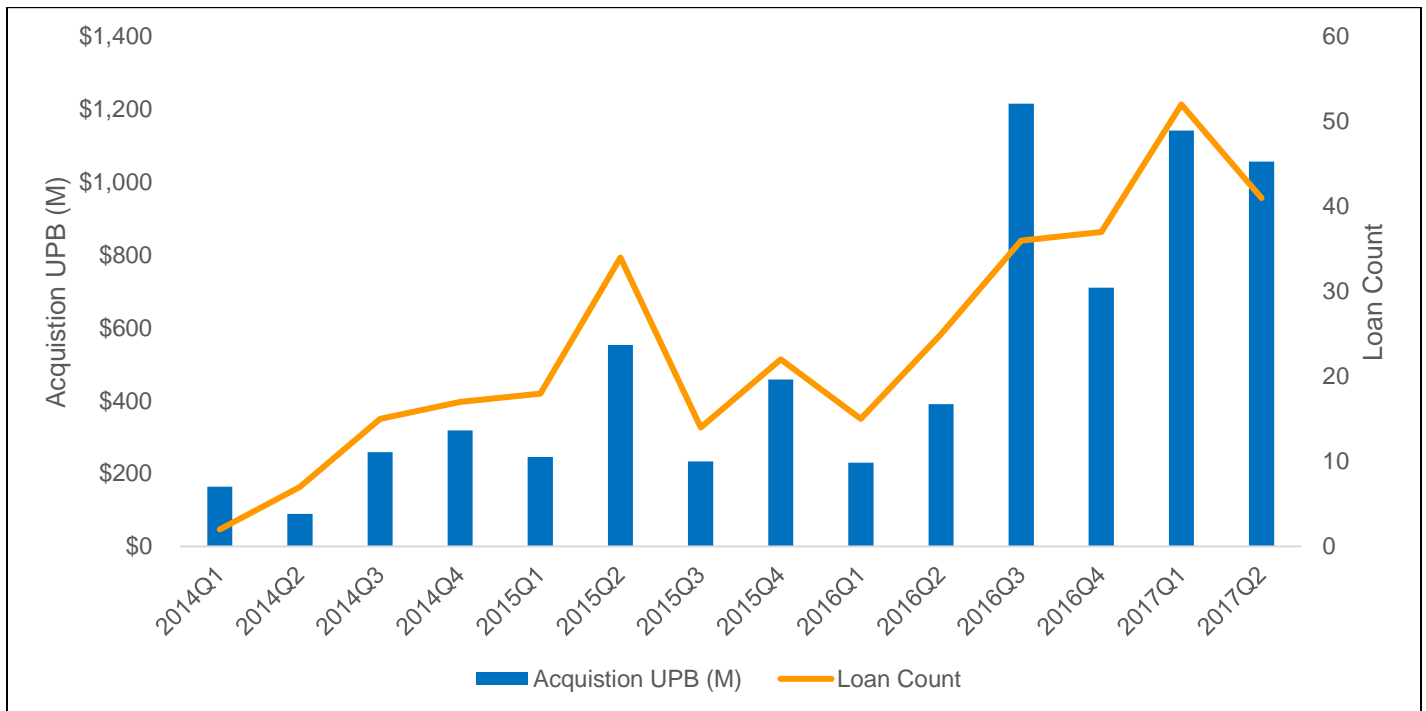
The arrival of the new 2017-2018 school year also coincided with the arrival of Hurricane Harvey. The state of Texas is a primary location for the student housing sector, and early indications are that the hurricane did not devastate the student housing sector there. According to preliminary information from Axiometrics, it appears that Hurricane Harvey did not cause significant damage to the state's student housing properties. However, Hurricane Harvey did inconvenience move-in dates for students at Texas A&M University-Corpus Christi, and there was some minor flooding at the University of Houston.

Performance of Fannie Mae's Student Housing Loans

Even though student housing represents a small portion of Fannie Mae's multifamily loans, the sector has been performing quite well for some time. In 2014, student housing accounted for just 3.0 percent of Fannie Mae's total multifamily acquisitions. However, as of second quarter 2017, that percentage has tripled and student housing acquisitions accounted for 9.0 percent of its multifamily acquisitions.

During first quarter 2014, Fannie Mae's student housing acquisition volumes accounted for approximately \$164 million. Three years later, as of second quarter 2017, its student housing acquisition volumes were approximately \$1.05 billion. Year-to-date as of June 2017, approximately \$2.2 billion in student housing volume has been acquired on 93 loans.

Fannie Mae Student Housing Acquisition Volumes Since 2014



Source: Fannie Mae



The New Normal?

The moderating supply level of the nation's student housing stock has led to improving fundamentals for most universities. There are some schools that are still working through a bit of oversupply leftover from 2013-2014, but overall fundamentals have improved.

Developers have started reacting to market trends and have started prioritizing quality over quantity. The shift to moderation in the student housing sector is expected to continue to be a win-win situation for all parties involved: developers, schools, and students. Although it is still early, it looks as if the shift to moderate supply will be the on-going theme for student housing over the next few years.

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