

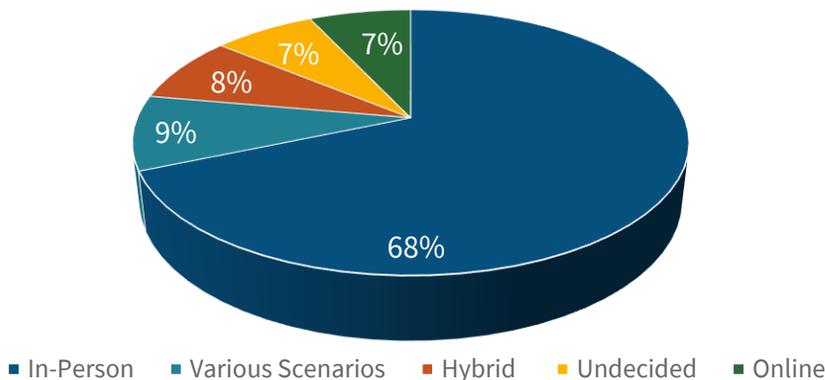
June 2020

Spring 2020 Student Housing Update

Much like the rest of the world, the student housing sector has been greatly impacted by the ongoing COVID-19 outbreak. Before many of the stay-at-home orders were issued around the country, many colleges and universities had begun to close their doors to students. Early spring is a time where many schools and universities are on spring break for the semester. In an effort to get ahead of the outbreak, many schools told students not to return and instead pivoted to distance (online) learning to complete the semester.

The COVID-19 outbreak is expected to affect the student housing sector, in both the immediate and long-term future. There has been much speculation about how the student housing sector might mitigate the impacts of the outbreak for the upcoming Fall 2020 semester. As more information has been discovered about the virus, it appears that off-campus student housing might fare better in COVID-19 mitigation than on-campus student housing. As more universities announce plans for the upcoming semester, off-campus student housing is expected to be better equipped in responding quickly to whatever learning model the schools decide to utilize.

Fall 2020 Learning Plans for Colleges



Source: *The Chronicle of Higher Education*

A Variety of Learning Plans for the Upcoming Semester

Since almost all colleges and universities pivoted to distance learning throughout March 2020, there are questions as to how those same institutions will operate for the upcoming Fall 2020 semester. *The Chronicle of Higher Education*, a Washington, D.C.-based publication that focuses on the higher education sector, has been monitoring the Fall 2020 learning plan announcements of many colleges and universities. Currently, more than 890 colleges and universities have announced their intentions for the upcoming school year, with approximately 68 percent announcing they will be offering in-person learning. The details of in-person learning vary, with some proposals including classes that are socially distanced; students agreeing to temperature checks; contact tracing being implemented; and most importantly, a truncated semester, beginning in early August and ending by Thanksgiving with no fall break. Likewise, the details of hybrid and various scenarios are not fully known but include elements of in-person and distance learning. There have also been discussions of having certain groups of students (e.g., upper/lower classmen) on campus at different times to mitigate the risk of the virus. More concrete details of these plans remain unknown.

Furthermore, there appears to be some overlap from some of the schools that have announced their intentions as other than simply holding in-person classes. For example, both the various scenarios and hybrid models, as highlighted in the above pie chart, are very similar since they include holding both in-person classes and online/distance learning. As more schools continue to announce their intentions for the upcoming semester, it is likely that some schools that previously issued announcements about their learning plans might amend their decision. The University of California state school system, which is the largest state school system in the U.S., announced that they would only be offering online/distance learning in the fall. However, they are now an outlier, as several other big state school systems have announced intentions to offer in-person classes this fall.

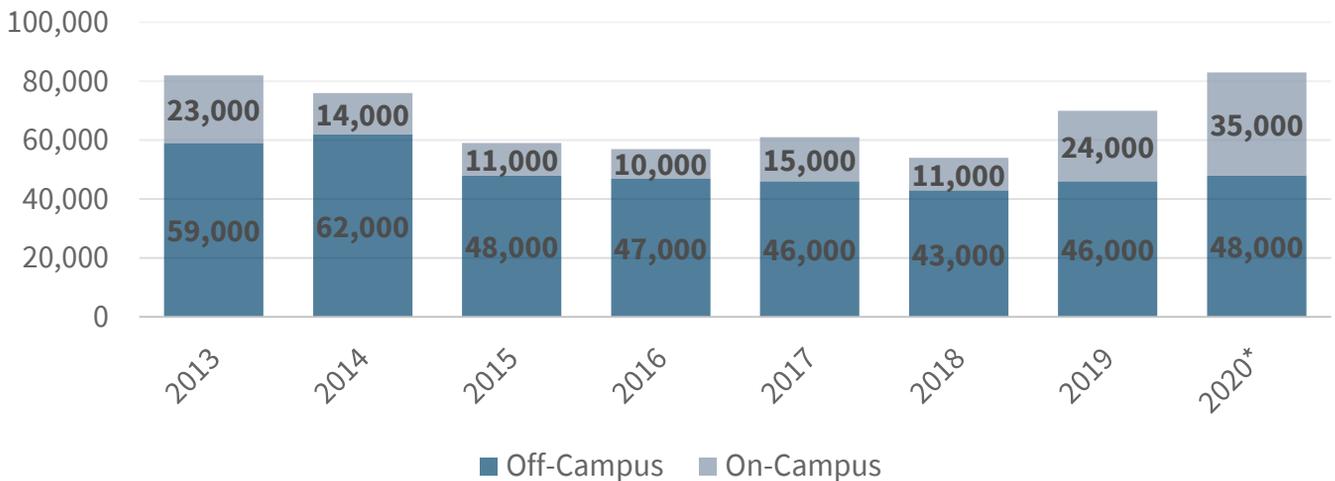
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Limited Impact on Supply Expected

Every year, the amount of new supply is at the forefront of the student housing sector and this year it is even more so. The COVID-19 outbreak closed many colleges and universities around the country, and many of these institutions furloughed or laid off employees as operations came to a halt. New construction is considered an essential business in many states, and in fact, thirty-nine states (including Washington, D.C.) did not halt construction work during the stay-at-home orders. Construction in New York, New Jersey, and Michigan was deemed non-essential and the remaining states did not issue orders regarding construction but implemented localized restrictions.

With construction not being impacted in most areas around the country, it appears that all completing supply should deliver on time for the upcoming school year. Off-campus housing is estimated to deliver approximately 48,000 beds this fall, while on-campus housing is expected to deliver approximately 35,000 beds. Indeed, on-campus housing deliveries appear to be much closer to the volume of off-campus housing deliveries, as seen in the chart below. Year over year, off-campus housing deliveries are expected to increase 4.3 percent, whereas on-campus deliveries are expected to increase nearly 46 percent.

Student Housing Deliveries – through Fall 2020



Source: Axiometrics, a RealPage Company

Note 2020 deliveries are not yet finalized, these totals are "underway" as of Q120

The Outbreak's Impact on Enrollments

College enrollments have been decreasing for seven years and early 2020 returns indicate that they are still in decline. According to the National Student Clearinghouse Research Center, Spring 2020 enrollments were down approximately 0.5 percent pre-COVID-19. Although this was a +1.2 percent increase, year-over-year, it is a bit misleading. Since the emergence of COVID-19 in the US, colleges and universities have had to face some harsh realities regarding enrollments for the upcoming Fall 2020-Spring 2021 school year. The biggest and most immediate impact is the decline in international student enrollments.

According to the Institute of International Education, during the 2017-2018 school year international student enrollment in U.S. institutions of higher learning was approximately 891,000 students. In the 2018-2019 school year, that number decreased to 872,000 students. As a result of the global impact of COVID-19 and many of the travel restrictions that have emerged as a result of outbreak, many international students who left U.S. colleges and universities in March 2020 may not be able to return. Furthermore, international students who hoped to begin their college career in the U.S. may have to look elsewhere, as they are also impacted by travel restrictions. To try to mitigate the loss of international students, many colleges and universities altered their enrollment requirements for the upcoming school year. Some schools have eliminated standardized testing (ACT/SAT) requirements, and some schools are granting enrollment to a wider range of candidates that might have previously been waitlisted.



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Student Housing Fundamentals During COVID-19

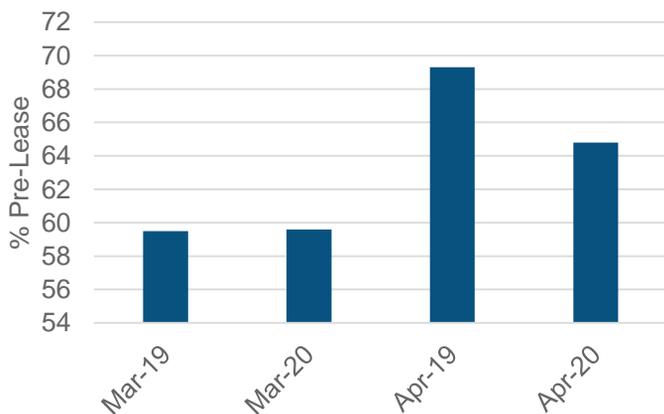
One positive aspect of the student housing sector is the resiliency and flexibility of the off-campus sector. Unlike on-campus housing, which is suffering from full university closures resulting in a mass exodus of students, off-campus student housing properties are still open and operating. Since off-campus student housing properties are not technically affiliated with the universities they serve, the residents who occupy these properties did not have to evacuate once nearby schools announced their pivot to distance learning. The performance of fundamentals at the off-campus student housing properties are on par with pre-outbreak levels.

For instance, Axiometrics Inc., a RealPage Company, has reported that as of April 2020 pre-lease numbers were at approximately 64.8 percent for the upcoming Fall 2020 school year. Year over year, the pre-lease numbers were down only about 0.80 percent, compared to 65.6 percent in April 2019. The significance of the pre-lease numbers being in line with pre-outbreak levels suggests that prospective students/residents appear more willing to occupy off-campus dwellings, perhaps because it is much easier to maintain social distancing requirements, if needed. Off-campus student housing properties, much like conventional multifamily apartments, do not share common areas or restrooms with large numbers of people, thereby lessening the likelihood of spreading the virus. Furthermore, in the event that schools needed to suddenly close again, off-campus housing properties allow students to maintain some semblance of a more typical college experience surrounded by other students, instead of having to attend online classes from their parents' houses, for example.

Although occupancy levels have decreased compared to pre-outbreak levels, off-campus student housing properties are still occupied by residents as they continue to pay rent. Commercial real-estate services firm Berkadia has been conducting monthly surveys regarding the fundamentals of the off-campus student housing sector. In April 2020 approximately 70.5 percent of the 720,000 beds surveyed were occupied; in May 2020, occupancy levels were at 71.2 percent of the 827,000 beds surveyed.

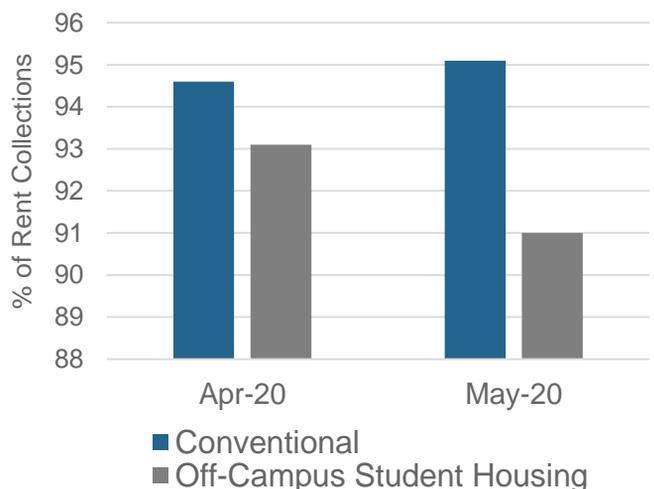
Lastly, rent collections are also on par with 2019 levels. The National Multifamily Housing Council (NMHC) has been tracking conventional multifamily rent payment activity during the outbreak. For the months of April 2020 and May 2020 rent payments were made by approximately 94.6 percent and 95.1 percent of renters, respectively. In regard to student housing payments, property management software company Entrata tracked that rents in April 2020 and May 2020 were made by approximately 93.1 percent and 91 percent of student housing renters, respectively.

Pre-Lease % for Off-Campus Student Housing Properties in April & May



Source: Axiometrics, a RealPage Company

% of Conventional and Off-Campus Student Housing Rents Collected from Renters in April & May



Sources NMHC & Entrata Inc.



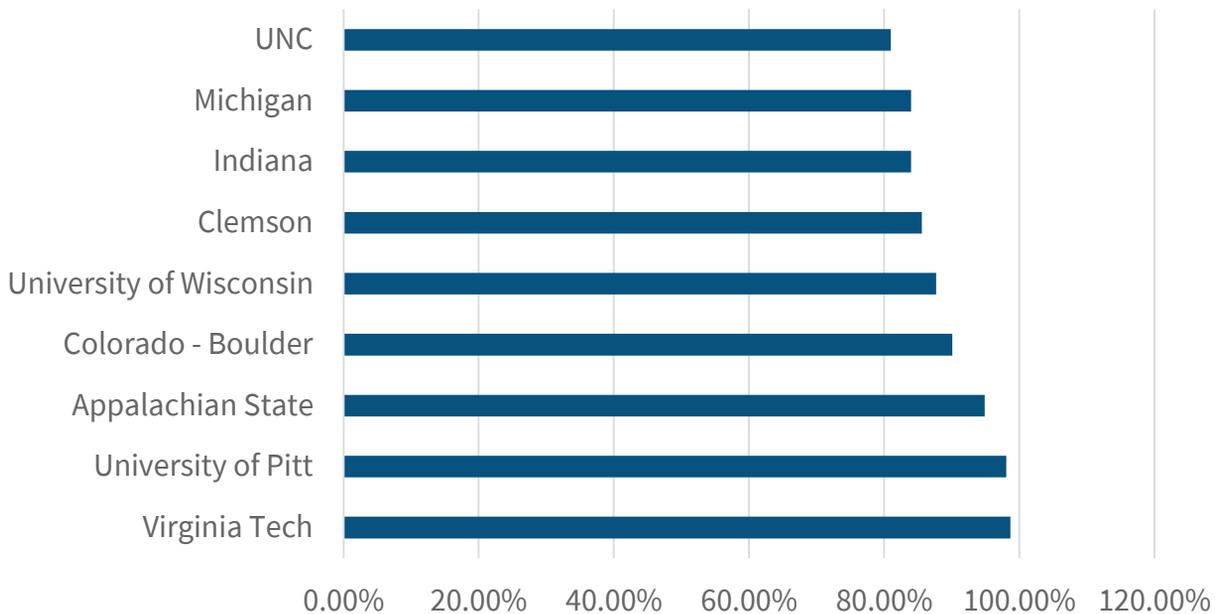
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Pre-Lease Performance Holding Up

Even though pre-lease performance for off-campus student housing properties is down slightly year over year, there are properties that are performing quite well despite the outbreak, including some that have pre-lease performance (as of May 2020) at above 75 percent. Considering that the COVID-19 outbreak is continuing throughout the country, it is heartening to see that some student housing properties are continuing to attract students to their residences.

It is worth noting that most of the schools listed below have announced that they plan on in-person learning at some capacity. Virginia Tech University, which has announced that it will be opening with a hybrid model (which includes in-person classes) this upcoming semester, had nearby off-campus student housing properties with a pre-lease performance of 98.7 percent, as of May 2020. The University of Pittsburgh, which also announced its intention to hold in-person classes at its nearby off-campus student housing properties, boasts a pre-lease performance rate of 98.1 percent. Lastly, Appalachian State University, with nearby off-campus properties showing pre-lease performance of 94.9 percent, will be open for in-person learning this upcoming semester.

Schools Pre-Lease Performance >75% As of May 2020



Source: Axiometrics, a RealPage Company

A New Reality for Student Housing

Much like the rest of the multifamily sector, the student housing sector is learning to adapt to the COVID-19 outbreak on the fly. Due to the large social aspect of the college experience, we believe it's unlikely that colleges and universities will only offer distance learning during the outbreak, as well as in any future outbreaks. As a result of the current outbreak, many schools may have to expedite changes that would otherwise still be on the back burner. The on-campus student housing sector, in particular, has a number of obstacles to overcome. The current model of packing students into small spaces with shared amenities and facilities is not beneficial during this outbreak and will likely not be in future outbreaks.

However, the shortcomings of the on-campus student housing sector highlight the best qualities of the off-campus student housing sector. The off-campus student housing sector offers residents a social experience in which they can also practice social distancing in, since amenities are less shared than on-campus dormitories. We believe off-campus properties have maintained some normalcy, evidenced by the better-than-expected performance of their fundamentals, which have remained in-line with 2019 levels. As more colleges and universities update their learning plans for the upcoming school year, off-campus properties could become even more attractive to prospective residents.



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