



Multifamily Market Commentary – May 2018

The Spring 2018 Student Housing Update

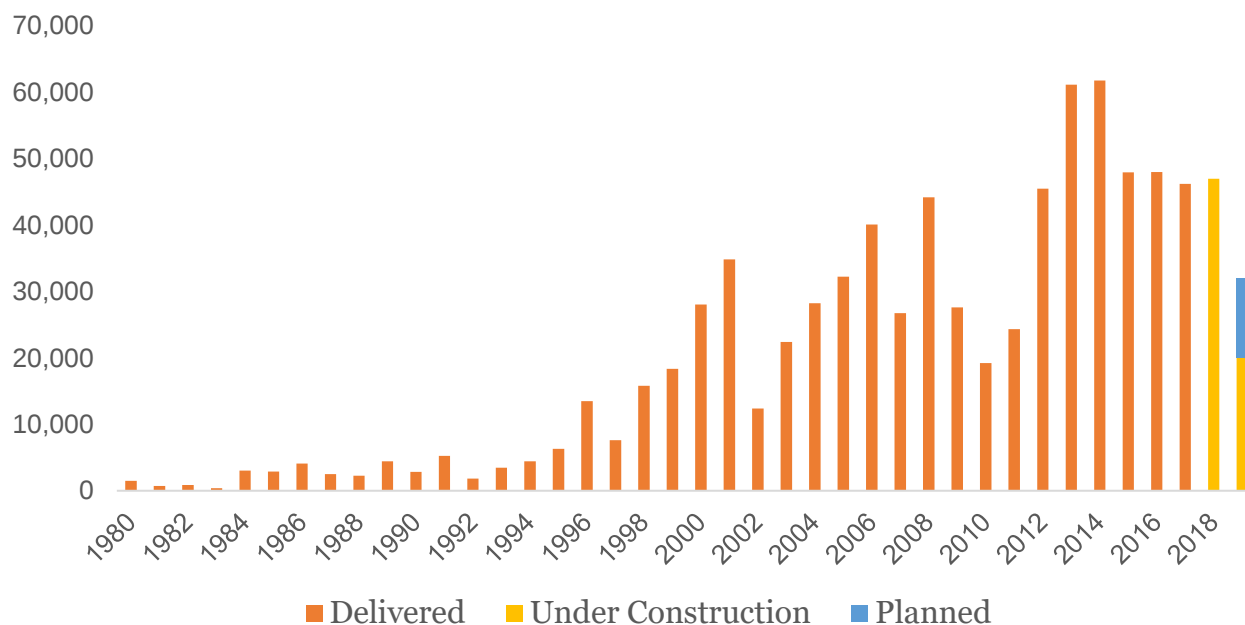
For the third consecutive school year, the supply delivered to the off-campus student housing market remains subdued. Supply in the student housing sector is defined by the number of beds, as rent is charged on a per bed basis. According to Axiometrics, Inc. a RealPage Company, approximately 46,200 beds were delivered nationwide in the 2017-18 school year. Further deliveries are expected in the 2018-19 school year, as there are approximately 47,000 beds currently in the pipeline for delivery in the upcoming school year.

Supply Moderating

The fall 2015 and fall 2016 school years each saw approximately 48,000 campus beds delivered nationwide. Compared to the fall 2013 and fall 2014 school years, during which upward of 61,000 beds were delivered each year, there has been a nearly 30 percent reduction in deliveries.

This past fall, during the 2017-18 school year, another 46,000 beds were delivered. As of first quarter 2018, approximately 47,000 beds are under construction for the upcoming school year. Looking further ahead, for the 2019 school year, there are another 30,000 beds in the pipeline. Deliveries of over 60,000 beds annually appear to be a thing of the past, as supply continues to moderate and the student housing sector matures.

Off-Campus Student Housing Beds through Fall 2019



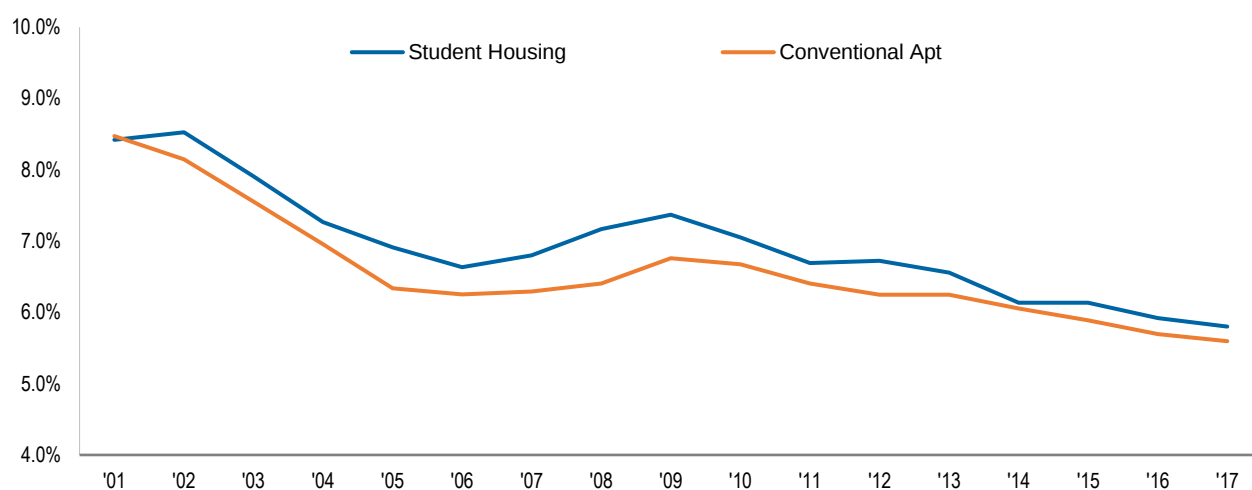
Source: Axiometrics, a RealPage Company



Annual Cap Rate Performance

Real Capital Analytics (RCA) reported that cap rates from 2001 to 2017 on student housing have been consistently higher than conventional multifamily apartments despite the relative newness of student housing as an asset class, as evidenced in the chart below:

Cap Rates for Student Housing and Conventional Multifamily Apartments



Source: Real Capital Analytics

Does the Emergence of Gen-Z Mean We've Already Hit Peak Expansion?

According to the U.S. Census Bureau, 2013 was the peak year for the population of the 18-24-year old cohort (individuals most likely to be in student housing/college) at approximately 31.5 million people. Since 2013, the population of that cohort has steadily decreased to approximately 30.5 million people in 2017. It is expected to continue declining for the next 15-20 years.

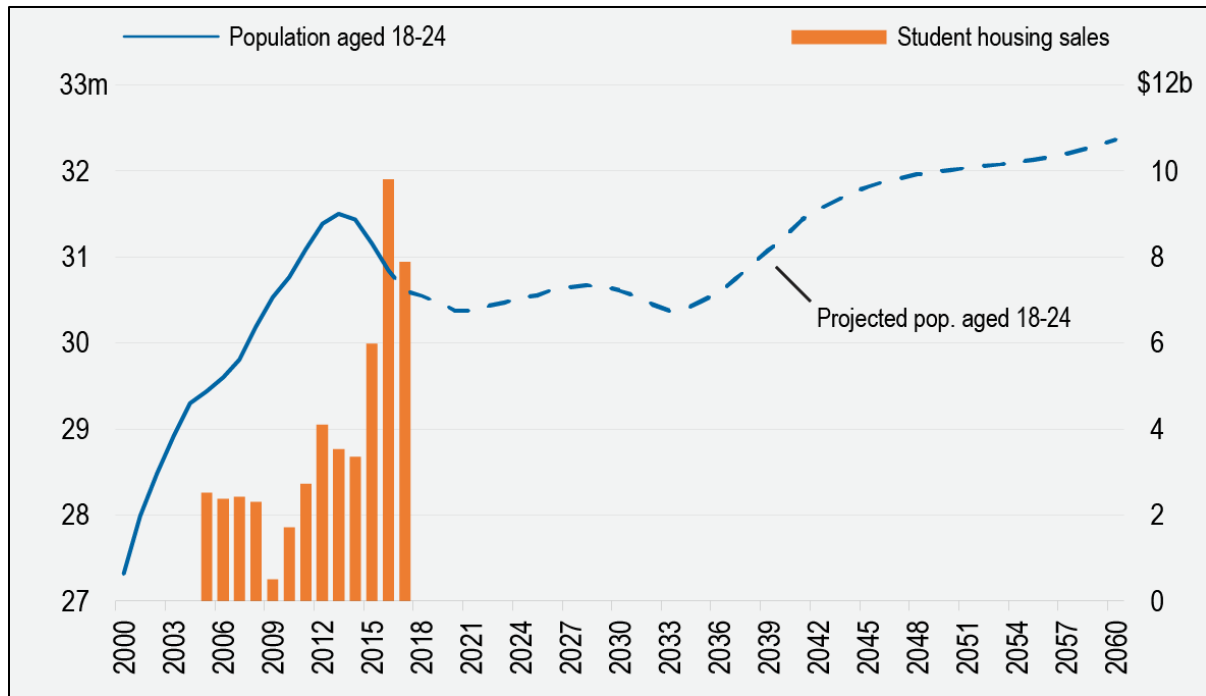
During this same time, peak student housing investment took place in 2016 when investment totals were approximately \$9.8 billion, with construction starts at \$5.1 billion. These numbers were nearly four times the average 2004-2008 investment level of \$2.4 billion per year. As the next generation begins to enter college, investment numbers are expected to decline along with the 18-24 year old population.

With these population and investment trends in mind, during the recent Interface Student Housing Conference in Austin, Texas, much of the industry chatter centered around the emergence of Generation Z (Gen-Z) in the student housing sector. Gen-Z is comprised of the population born after 1999 who will be entering their first year of college during the fall of the 2018-19 school year. Because the population of the industry's all-important 18-24-year old cohort is expected to continue declining, along with declining student housing investment, there was talk that the student housing industry may have already peaked. Jim Costello, Vice President of Real Capital Analytics, believes that the emergence of the new



generation will allow the student housing sector to continue maturing. If maturation occurs, it could lead to fewer occurrences of oversupply as developers adjust to the newer population.

Student Housing Investment and Projected Population of the 18-24-Year Old Cohort



Source: Real Capital Analytics, U.S. Census Bureau



Developer Activity in Student Housing

In its March/April 2018 issue, *Student Housing Business* released results from a survey of the 25 most active student housing developers. The results included pipeline numbers by developers for the next three years through fall 2021. Landmark Properties, American Campus Communities, and Trinitas are reportedly the most active student housing developers. Together, the three developers have approximately 50,000 beds in the pipeline over the next three school years. The survey results can be seen in the table below.

Top 25 Most Active Student Housing Developers Through Fall 2021

Company (Ranked in Order)	# of Beds	# of Projects
1. Landmark Properties	21,792	32
2. American Campus Communities	14,213	19
3. Trinitas	13,800	18
4. CA Student Living	13,441	27
5. Core Spaces	13,138	27
6. EdR	10,784	17
7. Park7 Group	10,562	16
8. Aspen Heights Partners	9,900	17
9. RISE: A Real Estate Company	9,664	11
10. Capstone Development Partners	8,550	7
11. Blue Vista Capital Management	8,121	13
12. University Student Living	7,748	8
13. Sterling Housing University	7,200	11
14. Balfour Beatty	6,000	6
15. Gilbane Development	4,400	6
16. Fountain Residential	4,305	11
17. The Collier Companies	3,655	6
18. AMCAL Multi-Housing Inc.	3,214	4
19. Kayne Anderson Real Estate	2,568	4
20. NDG Living	2,490	7
21. Zimmer Development	2,398	5
22. Campus Apartments	2,039	5
23. Haven Campus Communities	2,021	3
24. Annex Student Living	2,000	5
25. Campus Advantage	1,850	3

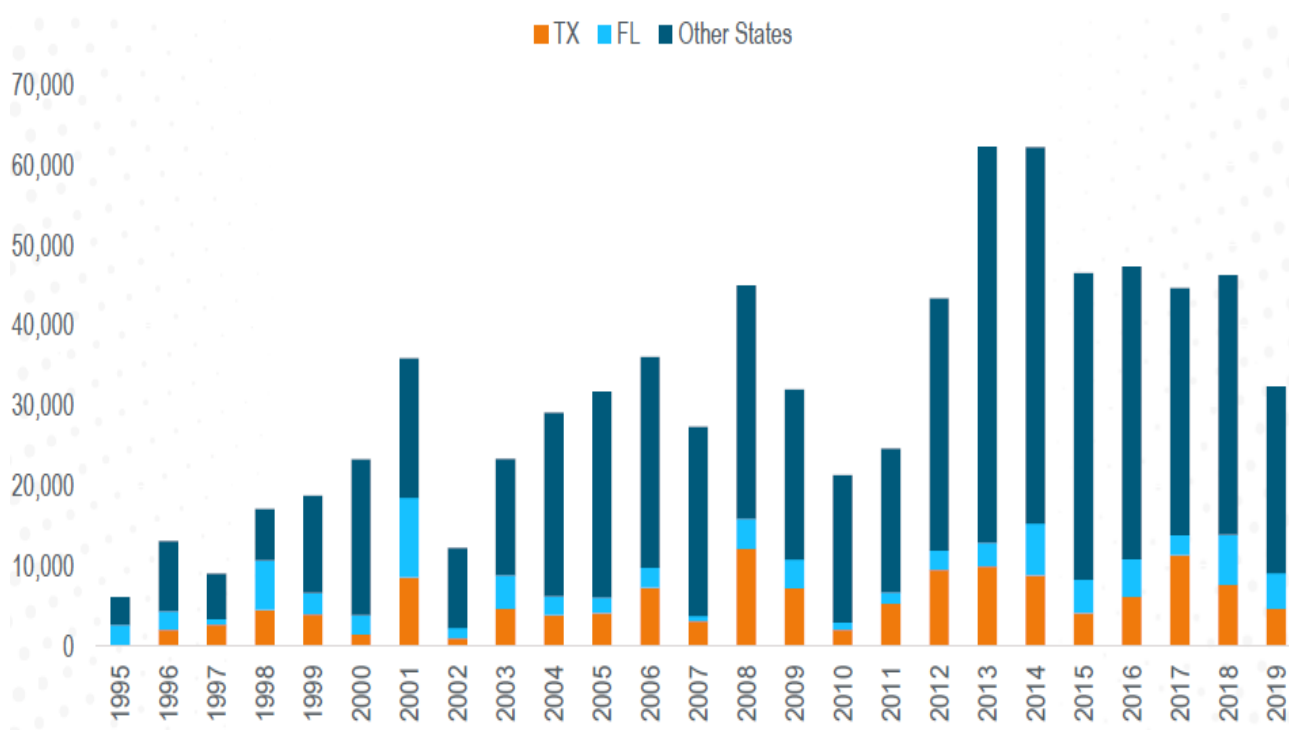
Source: *Student Housing Business*



Oversupply at Texas and Florida Universities

Even though the supply of student housing nationally has remained constant over the last few years, there remain concerns about oversupply in more local areas. The universities and schools located in Texas and Florida are currently working through waves of oversupply. Since 2011, five Florida Universities (Florida State, University of Florida, University of Central Florida, University of South Florida, and Florida International University) received approximately 26,000 beds, while five Texas Universities (Texas A&M, Texas State, Texas Tech, University of Texas-Austin, and Baylor) received approximately 48,000 beds. Furthermore, of the 47,000 beds expected to be delivered nationally in the fall 2018 school year, approximately 15,000 beds will be delivered to Florida and Texas schools. The next year, in fall 2019, there are currently 30,000 beds in the national pipeline, and approximately 10,000 of those beds are to be delivered in Florida and Texas.

National Student Housing Beds Delivered Annually by State



Source: Axiometrics, a RealPage Company



Transitioning to a New Era

The student housing sector continues to mature as deliveries plateaued and then decreased in the last few years. Going forward, we expect that annual deliveries below 50,000 beds will be the new normal for the student housing sector. As the supply in the sector continues to mature, we also expect that demand will stabilize.

The sector has also seemed to peak as millennials, the largest generation, have finished entering college. With the emergence of Generation Z, the population of the 18-24-year old cohort will be smaller, and we expect that there will be less of a need for new student housing. Over the next 12-to-18 months, developers are continuing to stay active – arguably overactive in certain areas – but the activity in the sector is already adjusting to meet the lessening demand.

Francisco Nicco-Annan
Economist

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