Inland Real Estate Investment Corporation

inland-investments.com

Inland Insights

Shifting College Demographics Support Robust Student Housing

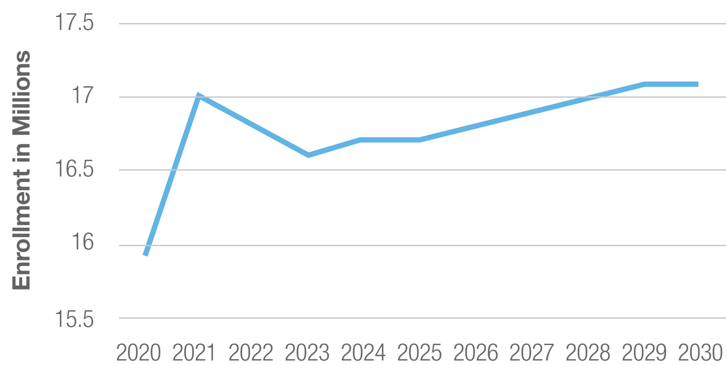
Solid sector fundamentals with opportunity for future growth.

Student housing remains a recession-resilient commercial real estate (CRE) sector of the housing market amid economic uncertainty and throughout the Covid-19 global pandemic. Recent changes in college demographics, including the evolution of online learning and an influx of college consolidations, has had a minimal impact on the sector's overall performance, spotlighting its strength.

Enrollment Trends

Although U.S. colleges and universities are experiencing a short-lived decline in enrollment rates, according to the National Center for Education Statistics (NCES), the number of high school graduates realizing the importance of a college degree and its impact on future career opportunities and potential wealth is increasing. According to a recent NCES report, undergraduate enrollment from 2020 to 2030 is projected to increase by eight percent for a total of 17.1 million college-aged students.[1] That's nearly one million more students expected to be enrolled in post-secondary institutions than today. This new era of college students seeks to live in off-campus student housing offering private spaces and high-end amenities versus the traditional on-campus shared dorm rooms.

Projected U.S. College Enrollment 2020-2030

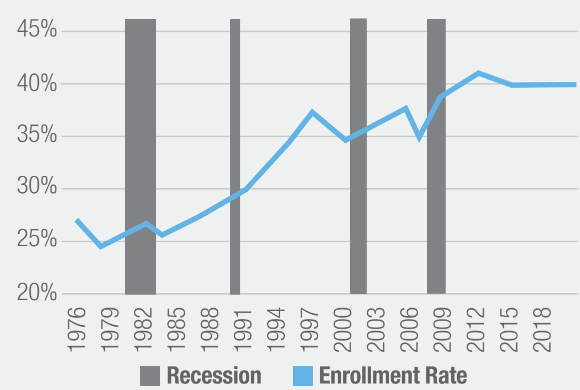


Source: National Center for Education Statistics. Undergraduate Enrollment. May 2022.

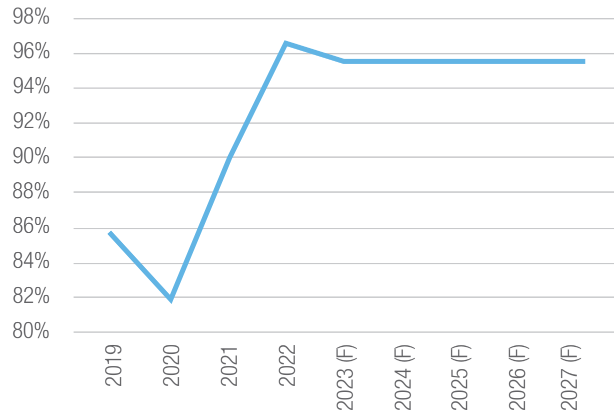
Historical Recessionary Enrollment Rates

According to research by NMHC, historical college enrollment rates are generally not impacted by economic recessions. In fact, college enrollments continued to steadily increase from 1976 to 2018, amid four different recessions.

Source: National Multifamily Housing Council. Is Student Housing Recession-Proof? Evidence From 43 Years of University Enrollment Data. March 2021



Yardi 200 Occupancy Forecast



Source: Yardi Matrix. Student Housing National Outlook. Fall 2022.

Notable Performance Trends

Stable Occupancy Rates

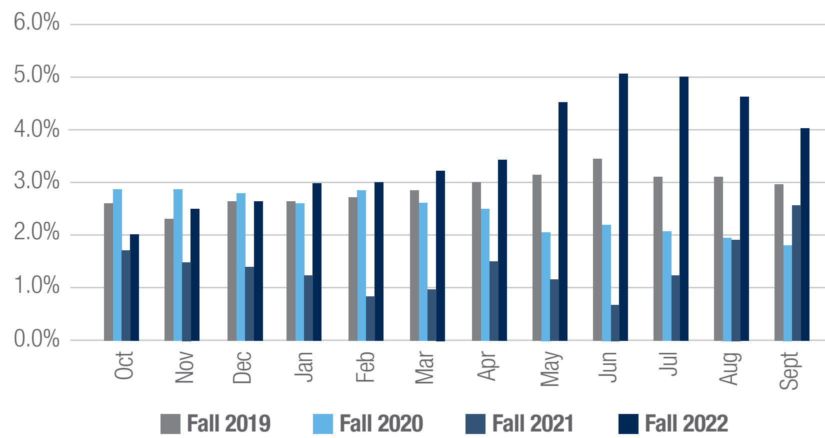
The National Multifamily Housing Council (NMHC) reported a 93.7 percent national average occupancy rate for fall 2022, marking a 2.5 percent increase year-over-year.[3] Similarly, Yardi Matrix's (Yardi) fourth quarter 2022 National Student Housing report states that occupancy rates at Yardi 200 universities* for fall 2022 reached 96.6 percent, representing a 2.3 percent increase over 2021 fall occupancy. Yardi is predicting occupancy rates will stabilize year-over-year from 2023 to 2027 to just under 96 percent. With average annual occupancy rates predicted to be above 90 percent in the coming years, it seems that students (and parents) still understand the value of the in-person college experience.[2]

Growing Rental Rates

As more students are looking for alternative housing options, rental rates at student housing properties surged across the U.S. in 2022. According to NMHC, national student housing rents grew approximately 4.13 percent year-over-year to $820 per bed in 2022.[3] Yardi 200 universities experienced exceptional average annual rent growth, peaking at 5.1 percent in June 2022 and remaining at a strong at 4.1 percent as of September 2022.[2]

While there are several factors that contribute to the continued rental increases for student housing, such as a supply/demand imbalance, one notable factor that often gets overlooked is the large role parents play in the rental process. Most college students cannot afford rent for the entire school year and seek parental support in co-signing their lease, offering a potentially reliable guarantee that rent will be paid each month.

Yardi 200 Annual Rent Growth



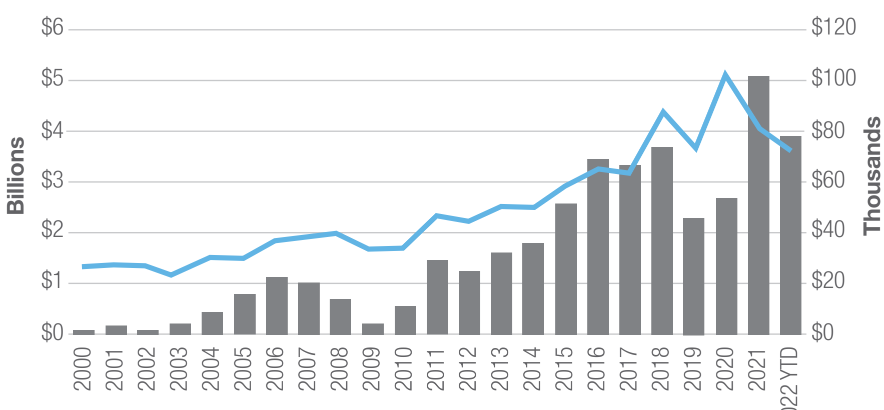
Source: Yardi Matrix. Student Housing National Outlook. Fall 2022.

Rising Transaction Volumes

Despite rapidly rising interest rates, as of September 2022, student housing transaction activity at Yardi 200 universities was on pace to reach another record year with $3.9 billion in sales.[2] This transaction volume has exceeded all previous years except for 2021. The level of transactions in 2021 and 2022 demonstrates the resilience of student housing amid economic uncertainty.

Despite a combination of demographic and economic headwinds, the student housing sector emerged from the pandemic and achieved (and continues to achieve) performance levels that exceeded pre-pandemic highs. The fundamentals of the student housing sector support its attractiveness as a long-term CRE strategy.

Yardi 200 Transaction Volumes



Source: Yardi Matrix. Student Housing National Outlook. Fall 2022.

*Yardi Matrix student housing data set includes over 2,000 universities and colleges nationwide, including the top 200 investment grade universities across all major collegiate conferences. Known as the "Yardi 200," it includes all Power 5 conferences as well as Carnegie R1 and R2 universities.

[1] National Center for Education Statistics. Undergraduate Enrollment. May 2022.
[2] Yardi Matrix. National Student Housing Report Fourth Quarter 2022.
[3] NMHC Student Housing Conference. Student Housing Market Economic Outlook. October 2022.

Disclosure

The views expressed herein are subject to change based upon economic, real estate and other market conditions. These views should not be relied upon for investment advice. Any forward-looking statements are based on information currently available to us and are subject to a number of known and unknown risks, uncertainties and factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements.

Important Risk Factors to Consider

Important Risk Factors to Consider Investments in real estate assets are subject to varying degrees of risk and are relatively illiquid. Several factors may adversely affect the financial condition, operating results and value of real estate assets. These factors include, but are not limited to:

- changes in national, regional and local economic conditions, such as inflation and interest rate fluctuations;
- local property supply and demand conditions;
- ability to collect rent from tenants;
- vacancies or ability to lease on favorable terms;
- increases in operating costs, including insurance premiums, utilities and real estate taxes;
- federal, state or local laws and regulations;
- changing market demographics;
- changes in availability and costs of financing;
- acts of nature, such as hurricanes, earthquakes, tornadoes or floods.
- economic risks associated with a fluctuating U.S. and world economy, including those resulting from the novel coronavirus and resulting pandemic.

Publication Date: 12/27/2022