

COVID-19 and STUDENT HOUSING

MYTHS AND REALITIES

BY: FREDERICK W. PIERCE, IV
PRESIDENT AND CEO, PIERCE EDUCATION PROPERTIES, L.P.

May 2021



PIERCE EDUCATION PROPERTIES

Table of Contents

1	Executive Summary
2	University Impacts During the Pandemic <ul style="list-style-type: none">Course DeliveryOn-Campus HousingEnrollmentInternational Students
3	University Outlook AY 2021-22 <ul style="list-style-type: none">Course DeliveryOn-Campus HousingEnrollmentInternational Students
4	Student Housing Performance During the Pandemic <ul style="list-style-type: none">OccupancyNo-Show RateCollectionsPre-LeasingInvestment SalesCap RatesRental Rates
7	Student Housing Future Outlook

Executive Summary

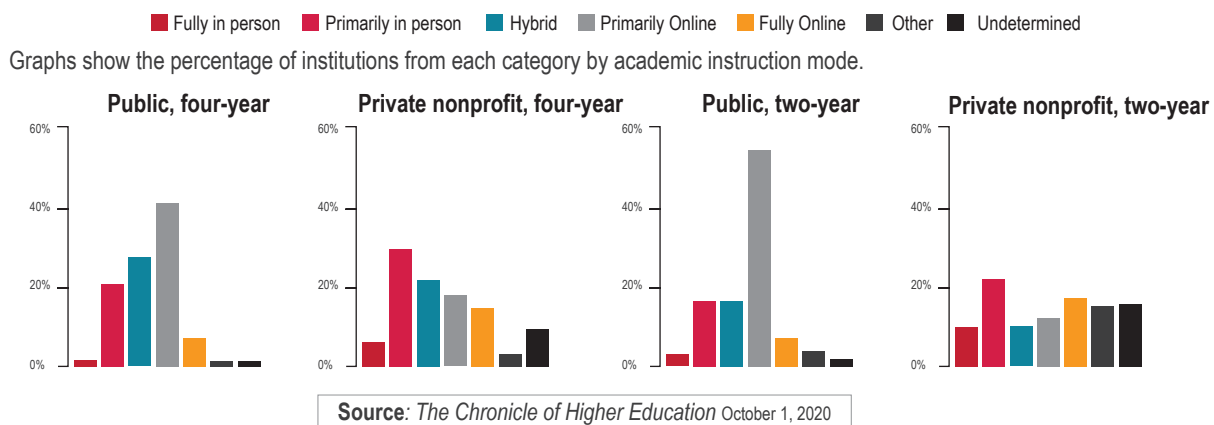
Given the devastating financial impact caused by the COVID-19 pandemic upon universities in Spring 2020 and academic year (“AY”) 2020-21, some have surmised that private Student Housing (defined below) has been similarly impacted. In fact, by most every available metric, off-campus Student Housing has again proven its resiliency and recession-resistant characteristics during the pandemic. During the pandemic, Student Housing has been the top performing sector of habitational real estate and out-performed every sector of commercial real estate except industrial.

- ▶ Despite universities suffering significant loss of room and board revenues in Spring 2020 by converting to 100% on-line instruction and closing their residence halls and food service operations, off-campus Student Housing prospered during this period. Pierce Education Properties (“Pierce”) collected 98% of rent from its residents between April and July 2020, compared to 95% collections in multi-family. Parental guarantees have demonstrated their value.
- ▶ The method of course delivery (substantially in-person, hybrid, substantially on-line, etc.) had almost no impact on occupancy of off-campus housing, as students demonstrated a high propensity to return to college irrespective of course delivery method. Approximately 99.5% of Pierce’s pre-leases moved in as anticipated in August, consistent with historic performance.
- ▶ Overall enrollments at public 4-Year universities (“4-Year Publics”) for AY 2020-21 were level compared to the prior year, despite a 10.5% decline in the freshman class and double-digit reduction in International Students. Graduate enrollments were up 3.6% at 4-Year Publics.
- ▶ Universities are expected to rebound in AY 2021-22 with the majority planning to offer courses substantially in-person, residence hall occupancies projected to be substantially higher than AY 2020-21 and enrollments expected to increase (including an over-sized freshman class and more International Students).
- ▶ While Student Housing has historically proved its recession-resistancy, the sector’s stellar performance during a pandemic that financially devastated feeder universities demonstrated an entirely different level of defensive characteristics. A 99.5% show-up rate, 99% collections and only 3% national occupancy reduction in AY 2020-21 is astounding, when the majority of feeder universities offered courses in hybrid or substantially on-line formats and residence halls operated at 50% to 80% of capacity.
- ▶ The future outlook for Student Housing at 4-Year Publics (and Power Five Conference schools, in particular) looks bright with institutional capital returning to the space, growing enrollments, reduced expected new supply, higher occupancies in AY 2021-22, steady cap rates and rent growth outpacing multi-family.

University Impacts During the Pandemic

When evaluating higher education as it relates to student housing, it is important to focus on 4-Year Publics, as that is where the super-majority of off-campus, purpose-built, leased-by-the-bed, student housing (“Student Housing”) is located. It is a subset of that – Power 5 Football Conference universities (“Power Five”) and Group of Five universities in major metropolitan areas – that comprise Pierce’s target markets. By way of example, 83% of Power Five universities are 4-Year Publics.

- ▶ **Course Delivery** Immediately after the pandemic was declared by CDC in March 2020, most every university in America converted to 100% on-line course delivery. Shortly thereafter, universities universally closed their on-campus housing and sent their students home for the balance of the Spring 2020 semester (with a ratable refund of room and board charges). In Fall 2020, two-thirds of 4-Year Publics delivered courses either substantially on-line or in a hybrid (mixture of in-person and on-line) format. About a quarter of 4-Year Publics held courses substantially or entirely in-person (see below).



- ▶ **On-Campus Housing** For AY 2020-21, most universities de-densified their on-campus housing. This took the form of converting double occupied rooms to singles, closing residence halls where social distancing proved infeasible (e.g. gang bathrooms, etc.) and adding quarantine beds. The typical university reduced its on-campus occupancy somewhere between 20% and 50%.
- ▶ **Enrollment** While enrollment for all post-secondary institutions was down 2.5% in Fall 2020, it was level at 4-Year Publics. At 4-Year Publics, freshman enrollment was down by 10.5%, as some would-be freshman took a gap year and others had COVID-related family resource challenges. Alternatively, graduate enrollments were up by 3.6%, as many Spring 2020 graduates were unable to secure jobs and continued their education and people laid-off returned to school. Overall level enrollments at 4-Year Publics during a pandemic was a very good outcome.

Table 1. Estimated National Enrollment by Institutional Sector: 2018 to 2020

Sector	Fall 2020		Fall 2019		Fall 2018	
	Enrollment	% Change from Previous Year	Enrollment	% Change from Previous Year	Enrollment	% Change from Previous Year
Total Enrollment (All Sectors)	17,778,484	-2.5%	18,239,874	-1.3%	18,482,391	-1.7%
Public 4-year	8,004,360	0.2%	7,989,984	-1.2%	8,087,410	0.0%
Private nonprofit 4-year	3,839,485	-0.1%	3,842,930	-0.6%	3,864,957	2.4%
Private for-profit 4-year	789,888	5.3%	749,885	-2.1%	765,596	-15.1%
Public 2-year	4,824,204	-10.1%	5,368,470	-1.4%	5,445,562	-3.2%
Unduplicated Student Headcount (All Sectors)	17,491,813	-2.6%	17,965,287	-1.3%	18,196,846	-1.4%

Source: National Student Clearinghouse Research Center, Term Enrollment Estimates Fall 2020

- ▶ **International Students** International travel restrictions and moratoria on new student visas resulted in a 15% decline in undergraduate and 8% decline in graduate international student enrollments. The impacts were not greater because continuing, degree-seeking International Students already had their visas and generally did not return to their home countries over the summer – they stayed in the U.S. and continued their educations. International Students represent about 5% of U.S. university enrollments.

University Outlook AY 2021-22

The higher education outlook for AY 2021-22 is much, much brighter than AY 2020-21. The broadening availability of COVID-19 vaccines is sprinting the country towards herd immunity in the fall. Most universities are requiring a negative test prior to returning to campus, while a quickly growing number are requiring students to be vaccinated.

- ▶ **Course Delivery** Virtually every university that has announced re-opening plans for Fall 2021 has indicated courses will either be substantially or entirely in-person. Most notably, several of the most conservative campuses in AY 2020-21 that offered little or no in-person classes – such as The University of California, The California State University and Princeton University – are amongst the earliest declarations of in-person learning in Fall 2021. It is expected that an overwhelming number of American universities will be delivering all or a majority of courses in-person in Fall 2021.
- ▶ **On-Campus Housing** Early reports indicate substantially higher occupancy of on-campus residence halls is planned this fall, but not yet a return to pre-pandemic levels. By way of example, of its 7,500-student capacity, San Diego State University residence halls have approximately 2,100 students in Spring 2021. Their forecast for Fall 2021 is 5,500 students. Some universities have identified residence halls they plan to demolish due to permanent social distancing concerns (including bathroom arrangements and HVAC). It is expected that demolished capacity will be replaced with new construction, but that will likely be years away from delivery.
- ▶ **Vaccinations** To enhance safety and slow the spread of the virus with a return to in-person instruction and living on-campus, there is a growing trend of universities requiring vaccinations in order to do so. This includes the gigantic California State University (CSU), University of California (UC), State University of New York (SUNY) and City University of New York (CUNY) systems and their scores of campuses. Enforcement of COVID-19 policies and protocols including missing virus tests is also prevalent including citations, fines, probation and suspensions for violators. Other universities are deactivating access to Wi-Fi, course materials and non-residential buildings. West Virginia University has announced an incentive plan with promised increasing levels of re-opening of campus amenities and activities based upon escalating percentages of student vaccinations. These measures are sure to enhance the safety of re-populated universities in Fall 2021.

- ▶ **Enrollment** Following a year of level enrollments, 4-Year Publics in Fall 2021 are projected to have the largest increase in the freshman class in a decade. That is because those students who deferred enrolling in 2020 are largely expected to join the Fall 2021 freshman class. In addition, with most of the nation's high school seniors relegated to remote learning this last year, they have more desire than ever to get out of the house and go to college. This larger prospective field of freshman candidates will noticeably increase the freshman class in Fall 2021.
- ▶ **International Students** Following annual growth of international students averaging 8.1% between AY 2011-12 and 2015-16, international enrollments leveled off starting in Fall 2017 following the election of President Trump and the accompanying perception that the U.S. was at that time unfriendly to foreigners. The pandemic in 2020 and related travel and visa restrictions resulted in a reduction in international enrollments last year. With the election of President Biden, the U.S. is once again looked upon as more open and January 2021 data from the Common App shows dramatic increases in international student applications for AY 2021-22 including from Brazil (+41%), Pakistan (+37%), India (+28%), UK (+23%) and Canada (+22%). While fall applications by Chinese students were down (-18%) in January, President Biden declared a National Interest Exception ("NIE") in late April 2021 re-opening travel to the US for international students from many previously restricted countries including China. As a result, U.S. Embassy's around the world are offering more appointments and processing student visa applications, but are still very backlogged. There should be an increase in International Students this fall over AY 2020-21, but the full impact of a more welcoming narrative, lesser or eliminated travel restrictions (e.g. NIE) and normal processing of student visa applications will not take full effect until AY 2022-23.

The bottom line for AY 2021-22 will be university course delivery substantially in-person, on-campus housing occupancies much higher than last year, meaningful enrollment growth at 4-Year Publics and some growth in International Students. While universities demonstrated their ability to be nimble in course delivery via on-line learning during the pandemic, their plans to overwhelmingly return to in-person instruction for AY 2021-22 prove that on-line learning is not a disrupter. Traditional undergraduate students want in-person instruction and to have the entire in-person university experience.

Student Housing Performance During the Pandemic

During the pandemic, Student Housing once again has demonstrated its recession-resistancy. Equally important, the sector has demonstrated that it can perform strongly even when feeder universities are disrupted delivering courses largely on-line and sending home on-campus students.

It is important to note that differing modes of course delivery by universities did not have a material impact on private Student Housing performance. Rather, the selected markets that were impacted differentially ("Impacted Markets") were ones where university messaging about re-opening plans and course delivery intentions were more ambiguous or who directed students to stay at home. However, the Impacted Markets were also the ones that noticeably captured increased occupancy in off-campus housing throughout the fall semester as students made their own decisions to return to campus after being tired of living at home.

Student Housing sector performance can be measured through a variety of metrics including occupancy, no-show rates, collections, investment sales, cap rates and rental rates. The sector's outstanding performance is particularly evident when compared to conventional multi-family during the pandemic.

- ▶ **Occupancy** Student Housing occupancies as of May 2021 were down approximately 3% compared to May 2020. That is strong performance considering that two-thirds of universities were offering courses substantially on-line or in hybrid mode in AY 2020-21. Spring 2021 occupancy for the Pierce portfolio is up approximately 1% over Fall 2020, with occupancy growth of more than 10% returning to mid-to-high 90s% at properties in Impacted Markets including Florida and California.

- ▶ **No-Show Rate** Student Housing starts its pre-leasing for the following year shortly after students move in. Given that, Student Housing does experience *no-shows* where students who signed pre-leases do not move in. Industrywide, that factor usually ranges from 0.5% to 1.0% of the pre-leasing rent roll. For the AY 2020-21 rent roll, with a significant amount of pre-leasing captured between October 2019 and mid-March 2020 before the pandemic was declared, one might have expected higher than normal no-shows from those pre-leases. That was not the case. In the Pierce portfolio, the no-show rate was approximately 0.5% in August 2020, at the low-end of a typical pre-pandemic year. This underscores the desire of college students to be at campus – irrespective of the pandemic – as well as the value of parental lease guarantees.
- ▶ **Collections** Collections in Student Housing during the pandemic have been incredibly strong, also indicating the desire of students to remain at campus and the value of parental lease guarantees. As the tables below indicate, collections by Pierce during the pandemic (AY 2020-21) averaged 98.1%, just 40 basis points below the same period in AY 2019-20 (98.5%). Comparatively, MFR collection rates are 380 basis points (94.3%) lower during the pandemic (AY 2020-21) than Pierce (98.1%) and 170 basis points below MFR collection rates the prior year. Collections in Student Housing are stronger than MFR in normal years and even more so during a recession or pandemic.

*Comparative Collection Rates²
Conventional Multi-Family (MFR) vs. Student Housing (Pierce)*

AY 2019-20			AY 2020-21		
MONTH	MFR	PIERCE	MONTH	MFR	PIERCE
August '19	95.8%	97.7%	August '20	94.5%	94.6%
September '19	95.5%	98.9%	September '20	94.6%	98.3%
October '19	96.6%	96.1%	October '20	94.8%	98.8%
November '19	95.2%	98.8%	November '20	93.6%	98.2%
December '19	95.9%	99.1%	December '20	93.8%	98.5%
January '20	95.8%	99.0%	January '21	93.2%	98.2%
February '20	95.1%	99.5%	February '21	93.5%	98.5%
March '20	97.2%	99.5%	March '21	95.9%	99%
April '20	94.6%	99%	April '21	95%	99%
'19-'20 Average	95.7%	98.5%	'20-'21 Average	94.3%	98.1%

Source: NMHC Rent PaymentTracker Data collected from between 11.1-11.5 million apartment units each month

- ▶ **Pre-Leasing** At 64% in early May 2021, Student Housing pre-leasing nationwide is down only 1.2%³ year-over-year (“YOY”), compared to being 9.6% behind in mid-March. The mid-March lag was to be expected as last year the pandemic had literally just been declared at that time. The acceleration of leasing velocity since March has been driven by the positive news of university re-openings and course delivery plans for Fall 2021, as well as broader availability of COVID-19 vaccines. Given the forecasted re-opening of universities and expected enrollment growth in the fall, pre-leasing velocity is projected to surpass last year’s levels over the summer and end up with higher fall occupancies than AY 2020-21.

¹ College House reports year-over-year decline of 3.27% for over 1 million beds in 207 markets as of May 4-9, 2021.

² NMHC Rent Payment Tracker. Data collected from between 11.1 - 11.5 million apartment units each month (<https://www.nmhc.org/research-insight/nmhc-rent-payment-tracker/>).

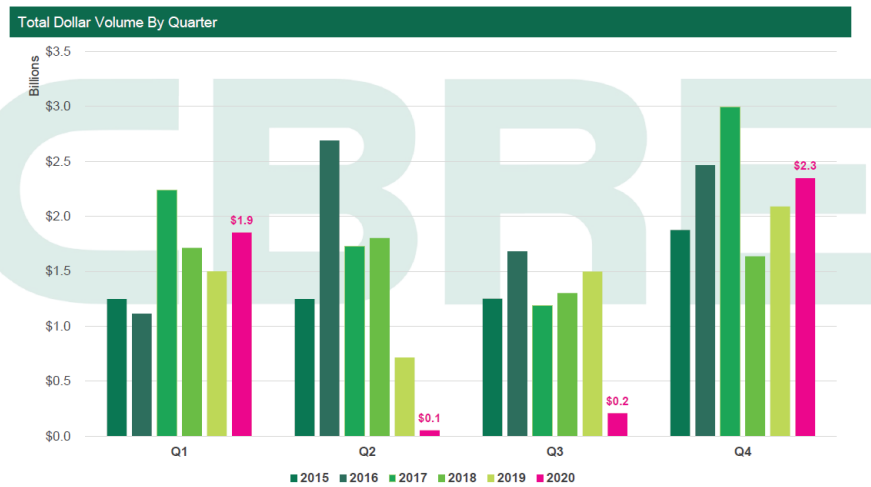
³ College House (week of May 4-9, 2021)



▶ **Investment Sales** Investment sales are a key valuation metric for student housing during the pandemic. Understandably, investment sales in student housing ground to a halt during Q2 and Q3 of 2020 as the industry, institutional investors and lenders sorted out the correlation between COVID-19, university distress and Student Housing. Of particular interest to buyers and investors at that time were university re-opening plans for Fall 2020 and their potential impact on Student Housing occupancies and collections. Following the stellar performance of Student Housing in the Fall, investment sales rebounded to \$2.3 billion in Q4, representing the third largest Q4 volume in the last six years and doing so during a pandemic.

QUARTERLY TRANSACTION VOLUME

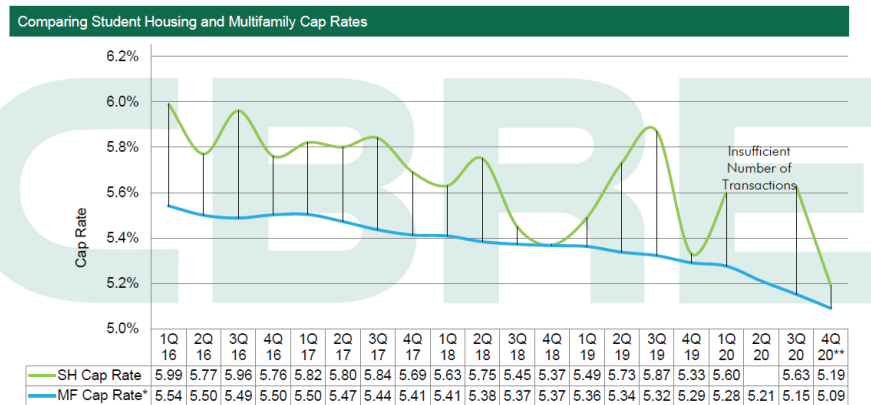
(Note: 2016 HSRE-CCG and 2018 Greystar-EDR transactions are not included in this data)



Source: CBRE, Year End 2020 Student Housing Market Overview

▶ **Cap Rates** Current cap rates are another relevant metric for Student Housing. Historically, Student Housing has traded at cap rates ranging from 25 to 50 basis points (bps) higher than MFR, recognizing the more management-intensive nature of the asset class. At 5.19%, Student Housing cap rates in Q4 of 2020 registered at the lowest level in history and were only 10 bps higher than MFR. It was also notable that UK-based Global Student Accommodation and giant private equity firm TPG entered the space in Q4 2020. Clearly, the institutional investment market has recognized Student Housing’s performance during the pandemic.

CAP RATE ANALYSIS



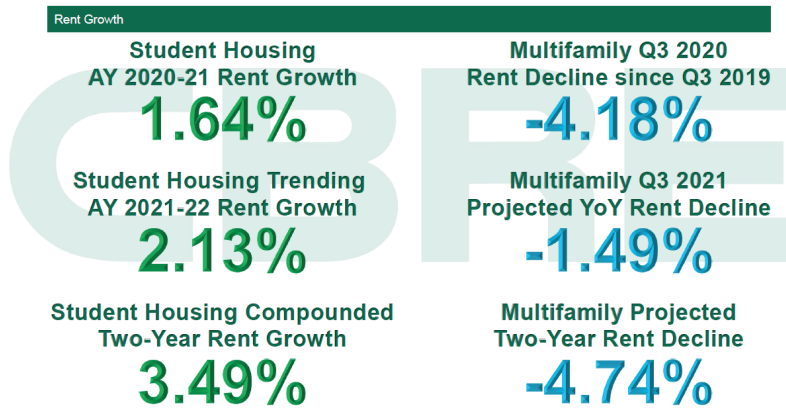
Source: CBRE, Year End 2020 Student Housing Market Overview



- ▶ **Rental Rates** While COVID-19 has driven MFR rents down over 4% in the last year (Q3 2020 vs. Q3 2019), Student Housing AY 2020-21 rents have increased 1.64% year over year. This reinforces the recession-resistant nature of the Student Housing asset class, and its value in a commercial real estate and habitational real estate asset allocation. By way of comparison, the Pierce portfolio YOY rent growth between January 2020 and January 2021 was 2.8%, outpacing the industry by 116 basis points.

NATIONAL RENT GROWTH TRENDS

Comparing Student Housing to Multifamily

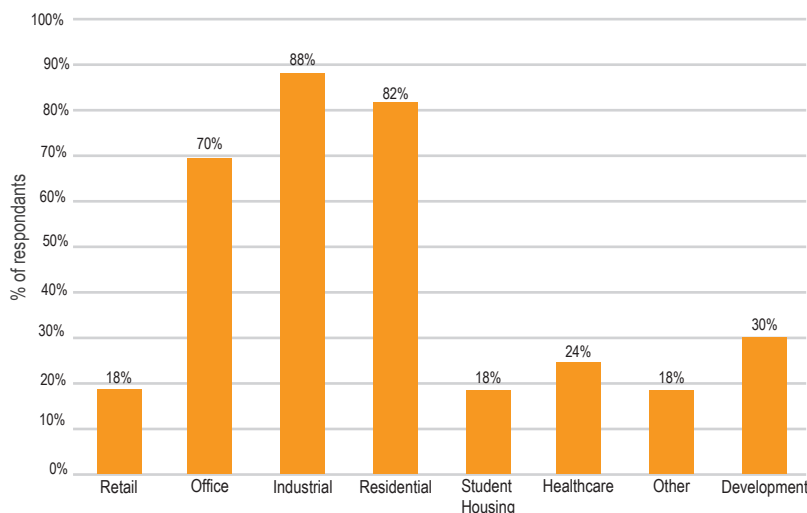


Source: CBRE, Year End 2020 Student Housing Market Overview

Student Housing Future Outlook

A strong measure of the outlook for Student Housing investment going forward is gained from the Pension Real Estate Association's annual Investor Intentions Survey, conducted in the 4th quarter of each year. This measures the percentage of global institutional investors intending to invest in the respective real estate asset classes in the U.S. in the coming year. As reflected in the table below, 18% of institutional investors intend to allocate capital to Student Housing in 2021, despite the misunderstood lack of correlation between university distress and Student Housing performance – perhaps, it may not be misunderstood. That is the highest level of intended Student Housing investment since 2017.

Figure 3.5 - Intended sectors for investment in the US in 2021

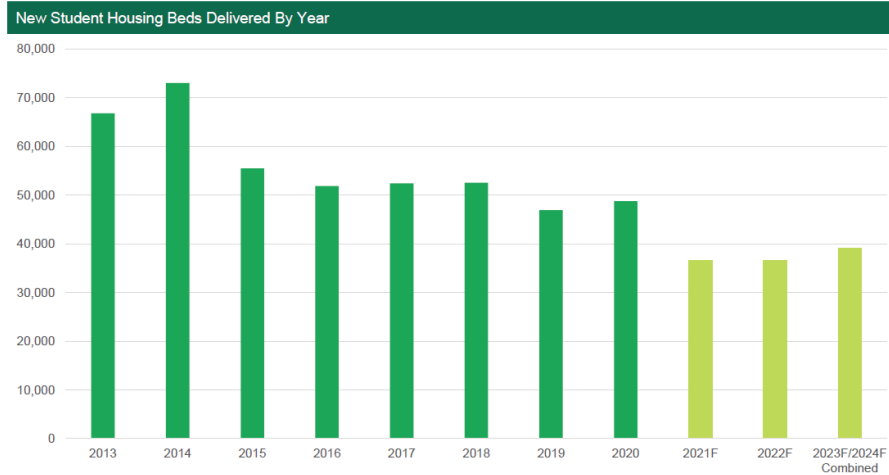


Source: PREA Investment Intentions Survey 2021

Another positive outlook for the space is the decreased volume of new supply in the pipeline. According to College House's data presented by CBRE, planned new deliveries nationally of less than 40,000 beds in both fall 2021 and fall 2022 represent the lowest level of new supply delivery since 2011.

ANNUAL SUPPLY PIPELINE

Deliveries for Fall 2021 are slated to be at the lowest level since the Great Recession



Source:
COLLEGE@HOUSE
CBRE

25

CBRE NATIONAL STUDENT HOUSING | YEAR END 2020 OVERVIEW

Source: CBRE, Year End 2020 Student Housing Market Overview

With universities expected to rebound from the pandemic in AY 2021-22 including the substantial return of in-person courses, re-population of on-campus residence halls and expected increases in enrollment and international students, the outlook is promising for higher education. While Student Housing has out-performed most all real estate asset classes during the pandemic by most all metrics, it stands to perform even better with stronger universities in AY 2021-22. In addition, with the reinforcement of investment sales metrics including Q4 2020 sales volumes, level and compressed cap rates, reduced new supply and stated institutional investor interest for 2021, Student Housing stands as strong as ever. That being said, it also remains important to select the right operator and the right markets to deliver the best results in Student Housing investment.



PIERCE EDUCATION PROPERTIES

For more information, please contact Frederick W. Pierce, IV, President and CEO of Pierce Education Properties at (619) 297-0400.

