SPECIAL REPORT

Student Loan Repayment

MARCH 2023

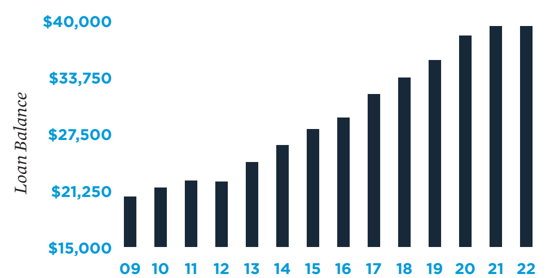
Resuming Student Loan Repayment Set to Affect 44 Million Borrowers; Multifamily, Retail and Hospitality Properties Could Feel Impact

Student loan repayment set to alter consumer spending. Introduced in early 2020 at the onset of the health crisis, the CARES Act froze repayment and interest accumulation on federal student loans. Borrowers with these loans have not been required to make monthly payments since the freeze. Building off this student debt relief, the Biden administration introduced a forgiveness plan for qualifying borrowers. If implemented, the plan could wipe away between $10,000 and $20,000 of federal debt for eligible borrowers. Uncertainty surrounds the plan, however, as it faces challenges in court. At the end of February, the Supreme Court heard arguments on the legality of the loan forgiveness aspect of the plan, but a ruling may not come until as late as June. Whether or not the Court allows some debt forgiveness, loan repayments will begin 60 days after the announcement. The return of this fixed expense that many households have not contended with in three years will likely weigh on consumer spending, stacking on top of existing inflation pressure and recessionary fears.

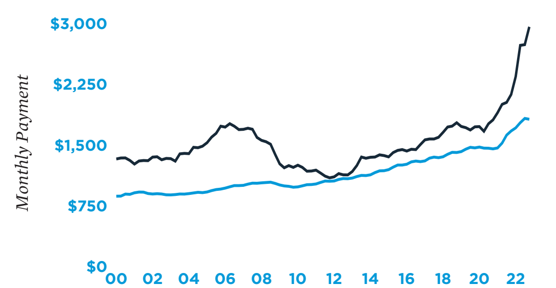
Student loan debt has multi-generational effect. The Federal Government holds approximately $1.6 trillion in student loan debt, which is distributed among 44 million borrowers. For those with a bachelor's degree, the average monthly student loan payment is around $267. The negative repercussions of this level of student loan debt are already prevalent among millennials and could begin to impact the older members of Gen Z. This cohort began graduating and entering the workforce during the pandemic and may have never made student loan payments. The volume of student debt holders is substantial enough that the impact of repayment will lower the purchasing power of both cohorts. Based on the historical impact of student loan debt on personal finances observed in the millennial generation, three main property types are likely to be affected by resuming repayment: multifamily, retail and hospitality.

Borrowers stay in the renter pool longer. Student loan debt has been shown to delay life events, including first-time home purchases. Multifamily properties may, therefore, see advantages from the resumption of debt payments as consumers with student debt are likely to rent longer. This adds to other factors making the transition to homeownership more challenging, such as limited for-sale listings propping up asking prices and elevated mortgage rates. The affordability gap, or the difference between a monthly payment on a median priced home and monthly average effective rent, is widening. At the end of 2022, this metric was around $1,142, the highest difference since at least 2000, emphasizing the comparative affordability of renting. Millennial homeownership already lags earlier generations at the same age, a trend that may pass on to Gen Z as the cohort faces the same financial strain as the preceding generation. An adverse effect of student loan repayment on the property type should, however, be noted. Household formation could slow as borrowers potentially delay moving out of their parents' house or opt to split costs with roommates.

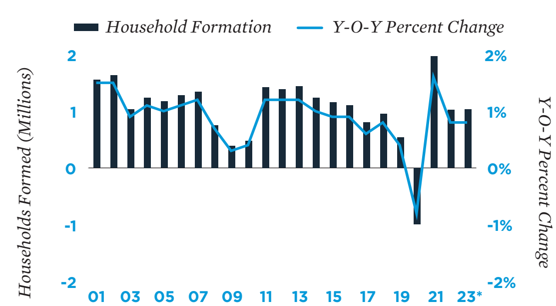
Average Student Loan Balance



Historically Extreme National Affordabilty Gap



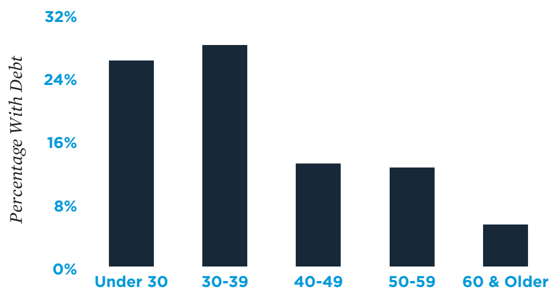
Household Formation Holds at Average Pace



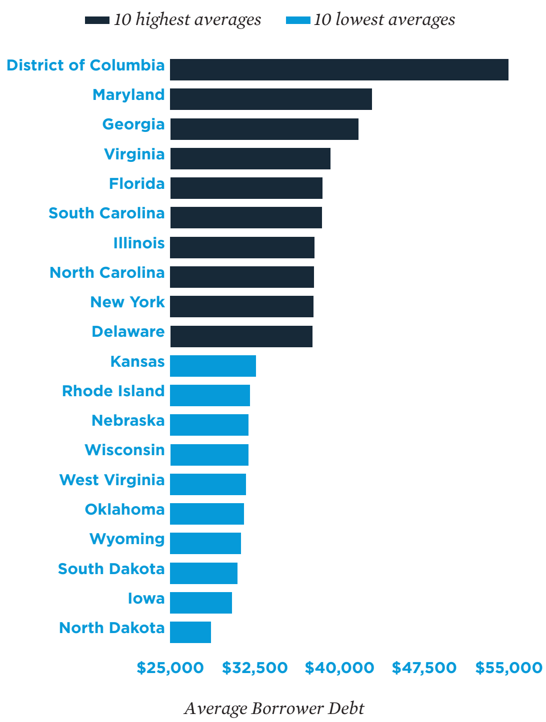
** Forecast*

Sources: IPA Research Services; Federal Reserve; Experian

Student Loan Debt Holders Per Age Group



Average Federal Student Loan Debt by State



Sources: Marcus & Millichap Research Services; Education Data Initiative

** Forecast*

Falling discretionary spending may impact retail sales and leisure travel. It is likely that resuming student loan repayment will dampen discretionary spending. An estimated 34 percent of adults between the ages of 18 and 29 have some student loan debt, along with 49 percent of the age 30- to 44-year-old cohort. As households absorb this extra expense, budgets will adjust — particularly in younger groups — potentially impacting retail sales. Properties anchored by grocery stores and budget-oriented tenants will likely fare best as consumers turn to preparing food at home and go to greater lengths to seek out deals. For similar reasons, hotels may see a shift in demand as consumers reduce unnecessary travel or look for lower-cost options. Midscale and economy hotels could benefit from this shift as travelers look for more ways to save.

Market reaction likely to be short-term and mild. After the sticker shock of repayment wears off and macroeconomic uncertainty reduces, spending habits are likely to begin adapting. Once borrowers have time to develop repayment plans, they can find the most advantageous payment option for them. Aside from student loan forgiveness, the Biden administration also proposed a new income-driven repayment system that stands to lower the monthly cost and potentially ease financial strain. There are also some states and areas where residents tend to be more or less impacted by student debt. Residents in the District of Columbia, for instance, have the nation's highest mean federal student loan debt, while North Dakota has a nationally low average among borrowers. In states where borrowers typically hold lower mean loan balances, fewer consumers will feel a strong financial change and will be less likely to adjust spending habits.

AVERAGE STUDENT LOAN PAYMENT BY DEGREE

Program Type	Average Cumulative Debt at Graduation*	Average Monthly Student Loan Payment on Standard Repayment Plan
Associate	$19,270	$196
Bachelor's	$26,190	$267
Master's	$50,290	$567
MBA	$50,150	$566
Doctorate (JD)	$223,060	$1,145

** Federal Loans Only*
Sources: IPA Research Services; National Center for Education Statistics

Sources: Marcus & Millichap Research Services; Capital Economics; Freddie Mac, John Burns Real Estate Consulting; Moody's Analytics; Mortgage Banker's Association; National Association of Home Builders; National Association of Realtors; RealPage, Inc.; U.S. Census Bureau; U.S. Bureau of Labor Statistics; Wells Fargo

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