RESEARCH BRIEF
UPDATE ON STUDENT LOAN FORGIVENESS

IPA INSTITUTIONAL PROPERTY ADVISORS

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Consumers Tighten Budgets as Student Loan Payments Resume

Supreme Court blocks Biden-Harris student debt forgiveness plan. Early in the health crisis, the CARES Act froze repayment and interest accumulation on federal student loans. In 2022, the Biden Administration introduced a forgiveness plan for qualifying borrowers, worth between $10,000-$20,000. Borrowers have not had to make monthly payments in over three years, and many may have been anticipating forgiveness and aligning spending habits accordingly. In June 2023, the Supreme Court blocked the forgiveness aspect of the plan, and federal student loans will begin accruing interest this September, with payments to resume in October. Given that over 43 million people hold some federal student loan debt, amounting to more than $1.6 trillion, this could negatively affect consumer activity.

Biden-Harris Administration implements new debt relief actions. Following the Supreme Court ruling, the administration released next steps. First, the Department of Education is instituting a 12-month “on-ramp” to repayment, beginning October 1. This allows financially vulnerable borrowers to temporarily avoid some of the most severe consequences of missing payments, lowering the risk of widespread delinquencies. The second action, called the SAVE plan, will lower monthly payments for borrowers enrolled in an income-driven plan for undergraduate loans. SAVE will cut payments to 5 percent of discretionary income, mitigating the initial shock of repayment. Still, retail spending, leisure travel and household formation will be impacted.

STUDENT LOAN PAYMENTS BY DEGREE

Program Type	Average Cumulative Debt at Graduation*	Average Monthly Student Loan Payment on a Standard Repayment Plan
Associate	$19,270	$204
Bachelor’s	$26,190	$278
MBA	$50,150	$570
Master’s	$50,290	$572
Doctorate	$101,490	$1,154
Law Degree (JD)	$129,290	$1,471
Medicine Degree	$223,060	$2,537

Impact on Commercial Real Estate

Student loan payments influence consumer spending. With federal loan repayment set to restart, many consumers may scale back holiday spending, presenting challenges during the busiest shopping season. Most consumers cut back on retail apparel, travel and restaurants when budgets tighten, affecting retailers popular among graduates. Meanwhile, necessity vendors like grocers or discount stores will likely feel less stress. While retail fundamentals are primarily in line with pre-pandemic levels, a tempered holiday season could impair the most troubled tenants. KeyBanc forecasts student loan payments will produce an annualized headwind of around 2 percent to retail sales in 2024, while Deutsche Bank estimates consumer spending will fall by $14 billion per month. Long term, however, student loan payments will be absorbed into budgets.

Leisure travel is likely to feel effects. Amid student loan repayment and inflationary pressures, leisure travel will likely taper, particularly among young borrowers. Over half of Gen Z adults and millennials are frequent travelers, more than prior generations. Many Gen Z travelers graduated during the federal student loan pause and have never made a student loan payment. Nearly 15 million of 25-to-34-year-olds — or 33 percent — have student debt, amounting to over $500 billion owed. The resumption of payments presents a possible shift in demand by market segmentation. While full- or select-service hotels may lose bookings as travelers reduce costs, economy hotels could capture some of these reservations. Repayment could also siphon international travel back to cheaper U.S. termini. While this is unlikely to fully compensate for reduced travel budgets, there is still demand for well-located and competitively priced hotels.

Multifamily demand will be prolonged. Student debt delays household formation and homeownership. Student loan holders may struggle to save for a down payment or to qualify for a home loan. The Federal Reserve found in 2019 that a $1,000 increase in student loan debt causes a 1 to 2 percent drop in the homeownership rate for borrowers in the age 24 to 32 cohort. The combination of high mortgage rates and a low for-sale stock also works against affordability. This will keep borrowers in the renter pool longer, especially in metros with a high cost of living. While this could help stabilize apartment vacancy after recent increases, the prevalence of household consolidation could also pick up. Tighter budgets may lead some borrowers to seek out roommates and split rent.