



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## Chapter 1 Student Housing Properties

### Section 101 Description

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#### 101.01 Student Housing Property

##### Requirements

- A Student Housing Property is a multifamily rental property in which 40% or more, but less than 80%, of the units are leased to undergraduate or graduate students.
- A student with sufficient income to pay rent does not count toward the student unit concentration required for a Student Housing Property.

#### 101.02 Dedicated Student Housing Property

##### Requirements

A Dedicated Student Housing Property is a multifamily rental property in which 80% or more of the units are leased to undergraduate or graduate students.

##### Guidance

A Dedicated Student Housing Property typically:

- caters to a student population due to its location;
- was specifically constructed as a student property or, although built as conventional multifamily housing, is now leased primarily to students; or
- is not readily rentable as conventional multifamily housing.

### Section 102 Generally

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##### Guidance

When underwriting a Student Housing Property or Dedicated Student Housing Property, you should consider the following questions:

- What percentage of units are leased to graduate students versus undergraduate students?
- Has the ratio of student to non-student tenants changed over the past several years?



- Is the Property marketable to non-student tenants, given the size, mix, and quality of the units?
- What is the rent structure? For example, are rents charged on a by unit basis or by bed basis?
- Who are the parties to the lease agreements? For example, are they typically signed by 1 tenant or all tenants, and/or co-signed by parents?
- What is the typical lease term?
- What is the enrollment outlook at the college/university?
- What is the student composition (i.e., full-time versus part-time) at the college/university?
- What are the current and forecasted supply and demand for student housing at the college/university? Will there be any college/university-sponsored construction?
- What is the Key Principal's experience with operating Student Housing Properties and Dedicated Student Housing Properties?
- What is the Property's proximity to campus? Can students walk to class and other campus locations?
- Is the Property conveniently located to a college/university-sponsored transportation line?
- Is the Property subject to a Ground Lease? If so, what are the structure and terms of the Ground Lease?

#### ☒ Requirements

If a Student Housing Property or Dedicated Student Housing Property is subject to a master lease, you must complete the Master Lease Review Checklist ([Form 6480](#)).

## Section 103 Dedicated Student Housing Property

### 103.01 Eligible Property Characteristics

#### ☒ Requirements

You must ensure that a Dedicated Student Housing Property:

- caters to a campus with at least 10,000 students, the majority of whom are full-time students;
- is
  - located within 2 miles of a campus boundary line, as determined by the local municipality, or



- near a college/university-sponsored transportation line; and
- has operated for at least 1 full school year (i.e., August/September through April/May).

#### Guidance

The Dedicated Student Housing Property should have stabilized occupancy no later than the month preceding the start of the first semester/quarter of the second full school year.

### 103.02 Ineligible Property Characteristics

#### Requirements

Fannie Mae will not purchase any Mortgage Loan secured by a Dedicated Student Housing Property that offers food service.

### 103.03 Residential Leases

#### Requirements

You must ensure that at least 80% of the units in a Dedicated Student Housing Property are leased for a minimum term of 12 months.

#### Guidance

Each student lease agreement should have

- a parental guarantee of the rent, or
- student tenants with sufficient income or other documented financial means to pay the rent.

### 103.04 Properties on College/University Land

#### Requirements

You must ensure that a Dedicated Student Housing Property located on college/university land meets the following:

- the Borrower has control over all economic decisions affecting the Property (such as financing, leasing, and management);
- the Key Principal
  - has at least 5 years of operating experience with Dedicated Student



Housing, and

- operates at least 1 other Dedicated Student Housing Property located on college/university land; and
- any Ground Lease complies with [Part II, Chapter 1: Attributes and Characteristics, Section 104: Ground Leased Properties](#).

### 103.05 Additional Underwriting Documentation

#### Requirements

Your underwriting must include the following:

- name of the college/university and its current total enrollment;
- current enrollment percentages of full-time graduate and undergraduate students;
- location of the Property relative to the campus;
- whether the Property is part of the college/university's housing referral program;
- details of the Property's amenity package;
- whether the Property is convenient to a college/university-sponsored transportation line;
- detailed description of the related rental housing market, including
  - the amount of on-campus rental housing space occupied or available, and
  - any future on- or off-campus rental housing planned or under construction;
- percentage of the Property's units pre-leased for the semester/quarter;
- percentage of the Property's tenants who are students;
- percentage of the Property's leases that have a term of less than 12-months;
- whether the Property is subject to a Ground Lease or master lease and, if so, the structure and terms of the lease; and
- whether parental guaranties are required for leases at the Property.

## Section 104

### Underwritten NCF

#### Requirements



You must use the following table to calculate Underwritten NCF for Student Housing Properties and Dedicated Student Housing Properties.

For Dedicated Student Housing Properties, Fannie Mae will permit “by-the-bed” income and valuation for units occupied by students if the

- Property has at least 2 years of operating statements using that method, and
- rental rates are comparable to similar Student Housing Properties.

| REQUIRED UNDERWRITTEN NCF<br>(STUDENT OR DEDICATED STUDENT HOUSING PROPERTY) |          |  |
|--|----------|--|
| Item   | Function | Description  |
| CALCULATION OF NET RENTAL INCOME   |          |  |
| 1  |          | <p>GROSS RENTAL INCOME (GRI) market rents for vacant units based on a current rent roll (multiplied by 12), plus:</p> <ul style="list-style-type: none"><li>• for a Student Housing Property the lower of<ul style="list-style-type: none"><li>- actual rents in place for occupied units on a per unit basis, or</li><li>- market rents that would be available if the Property was not leased to students; and</li></ul></li><li>• for a Dedicated Student Housing Property the lower of<ul style="list-style-type: none"><li>- actual rents in place for occupied units on a per unit or "by the bed" basis, or</li><li>- market rents for comparable Dedicated Student Housing Properties.</li></ul></li></ul> |
| 2  | PLUS     | To the extent deducted as an operating expense, rents for other non-revenue units (e.g., model units deducted in the "model apartment" operating expense in the "general and administrative" category, or actual rent from employee units deducted in the "employee" operating expense in the "payroll and benefits" category).  |
|  | EQUALS   | GROSS POTENTIAL RENT (GPR)   |



| REQUIRED UNDERWRITTEN NCF<br>(STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)   |          |   |
|--|----------|---|
| Item   | Function | Description   |
| 3  | MINUS    | Premiums (e.g., identifiable additional income from furnished units or short term leases) and/or corporate premiums (e.g., identifiable additional income from corporate units, housekeeping services, etc.). |
| 4  | MINUS    | Physical vacancy market rents for vacant units based on a current rent roll (multiplied by 12). <sup>1</sup>  |
| 5  | MINUS    | Concessions - the aggregate amount of forgone residential rental income from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc. <sup>1</sup>   |
| 6  | MINUS    | Bad debt - the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt. <sup>1</sup>  |
|  | EQUALS   | NET RENTAL INCOME (NRI)   |
| <p>1 The total of Items 4, 5, and 6 must equal or exceed the greater of</p> <ul style="list-style-type: none"> <li>• the difference between the trailing 12-month net rental collections (annualized) and GPR, or</li> <li>• 5% of GPR.</li> </ul> <p>If trailing 12-month NRI is not available, use a minimum 10% of GPR.</p> |          |   |
| CALCULATION OF OTHER INCOME  |          |   |





| REQUIRED UNDERWRITTEN NCF<br>(STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)                        |          |   |
|---|----------|---|
| Item  | Function | Description   |
| 7   | PLUS     | <p>Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must:</p> <ul style="list-style-type: none"> <li>• be stable;</li> <li>• be common in the market;</li> <li>• exclude one-time extraordinary non-recurring items; and</li> <li>• be supported by prior years.</li> </ul> <p>You must assess the individual month's other income within the prior full year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized).</p> <p>If there are fluctuations, you may use other income that exceeds the trailing 3-month other income (annualized), provided it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation.</p> |
| CALCULATION OF COMMERCIAL INCOME  |          |   |
| 8   | PLUS     | Actual income from leased and occupied commercial space per <a href="#">Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases</a> .  |
| 9   | MINUS    | 10% of the actual commercial space income. <sup>2</sup>   |
| 10  | PLUS     | Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections. <sup>2</sup>  |
| <p><sup>2</sup> If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.</p> |          |   |



| REQUIRED UNDERWRITTEN NCF<br>(STUDENT OR DEDICATED STUDENT HOUSING PROPERTY) |          |  |
|--|----------|--|
| Item   | Function | Description  |
| 11   | PLUS     | Premiums <sup>3</sup> , provided that the income must: <ul style="list-style-type: none"> <li>• be stable or increasing;</li> <li>• be typical (in type and amount) in the market;</li> <li>• be supported by prior years; and</li> <li>• not exceed the income generated over the most recent year or trailing 12-month period.</li> </ul>  |
| 12   | PLUS     | Corporate premiums <sup>3</sup> , provided that this income must: <ul style="list-style-type: none"> <li>• not be included for more than 10% of the Property's units;</li> <li>• be stable or increasing;</li> <li>• be typical (in type and amount) in the market;</li> <li>• be supported by prior years; and</li> <li>• not exceed the income generated over the most recent year or trailing 12-month period.</li> </ul> |
| 13   | PLUS     | Laundry and vending, parking, and all other income per <a href="#">Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis</a> .  |
|  | EQUALS   | EFFECTIVE GROSS INCOME (EGI)   |
| 3 Premium or corporate premium income cannot exceed 3% of GRI.               |          |  |
| CALCULATION OF OPERATING EXPENSES  |          |  |



**REQUIRED UNDERWRITTEN NCF  
(STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)**

| Item | Function | Description  |
|------|----------|--|
| 14   | MINUS    | <p>Line-by-line stabilized operating expenses.</p> <p>Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a</p> <ul style="list-style-type: none"><li>• lease-up,</li><li>• rehabilitation, or</li><li>• other short-term positive or negative factors.</li></ul> <p>Non-recurring, extraordinary expenses must not be included.</p> <p>You must assess:</p> <ul style="list-style-type: none"><li>• past operating history;</li><li>• the Appraiser's expense analysis;</li><li>• all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and</li><li>• the Borrower's budget (in the case of an Acquisition).</li></ul> <p>You must:</p> <ul style="list-style-type: none"><li>• analyze historical operations at the Property; and</li><li>• apply an appropriate increase over the prior year's operations in determining an estimate.</li></ul> |



| REQUIRED UNDERWRITTEN NCF<br>(STUDENT OR DEDICATED STUDENT HOUSING PROPERTY) |          |   |
|--|----------|---|
| Item   | Function | Description   |
| 15   | MINUS    | <p>Property management fee equal to the greatest of:</p> <ul style="list-style-type: none"> <li>• 4% of EGI;</li> <li>• actual property management fee, provided you <ul style="list-style-type: none"> <li>- exclude any portion of a non-arm's length property management fee that is subordinated to the Mortgage Loan, and</li> <li>- include any known contractual fee increases occurring over the next 24 months; or</li> </ul> </li> <li>• Appraiser's concluded market property management fee.</li> </ul> |
| 16   | MINUS    | Real estate taxes per Item 17(b) in <a href="#">Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF)</a> .   |
| 17   | MINUS    | Insurance per Item 17(c) in <a href="#">Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF)</a> .   |
| 18   | MINUS    | Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses per <a href="#">Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis</a> .   |
|  | EQUALS   | UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)  |
| 19   | MINUS    | Replacement Reserve expense per <a href="#">Part III, Chapter 1: Student Housing Properties, Section 105: Replacement Reserve</a> .   |
|  | EQUALS   | UNDERWRITTEN NCF  |



## Section 105 Replacement Reserve

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### 105.01 Determining Replacement Reserve

#### ☒ Requirements

The minimum Replacement Reserve amount must equal the greater of

- the amount calculated per [Part II, Chapter 4: Lease Audits, Inspections, and Reserves, Section 406: Replacement Reserve](#), or
- \$250 per unit per year.

### 105.02 Replacement Reserve Funding

#### ☒ Requirements

You must ensure full funding of the Replacement Reserve.



## Glossary

### A

#### Acquisition

Any Purchase of either the:

- Property's fee simple or leasehold interest via a deed transfer; or
- Controlling Interest in the Borrower.

#### **Synonyms**

- Acquisitions

#### Appraiser

Person engaged to estimate a Property's market value per USPAP.

#### **Synonyms**

- Appraiser's
- Appraisers

### B

#### Borrower

Person who is the obligor per the Note.

#### **Synonyms**

- Borrowers
- Borrower's

### D

#### Dedicated Student Housing Property

Multifamily rental Property in which 80% or more of the units are leased to undergraduate or graduate students.

#### **Synonyms**

- Dedicated Student Housing

### G

#### Ground Lease

Contract for the rental of land, usually on a long term basis.

### K



## Key Principal

Person who

- controls and/or manages the Borrower or the Property,
- is critical to the successful operation and management of the Borrower and the Property, and/or
- may be required to provide a Guaranty.

### **Synonyms**

- Key Principals
- Key Principal's

## L

### Lease

Written agreement between an owner and the tenant of a Property stipulating the conditions for possession and use of real estate for a specified period of time and rent.

### **Synonyms**

- Leases

## M

### Mortgage Loan

Mortgage debt obligation evidenced, or when made will be evidenced, by

- the Loan Documents, or
- a mortgage debt obligation with a Fannie Mae credit enhancement.

### **Synonyms**

- Mortgage Loans
- Mortgage Loan's

## P



## Property

Multifamily residential real estate securing the Mortgage Loan, including the

- fee simple or Leasehold interest,
- Improvements, and
- personal property (per the Uniform Commercial Code).

### **Synonyms**

- Properties
- Property's

## R

### Replacement Reserve

Custodial Account the Borrower funds during the Mortgage Loan term for Replacements.

### **Synonyms**

- Replacement Reserves

## S

### Student Housing Property

A multifamily residential rental property in which 40% or more, but less than 80%, of the units are leased to either undergraduate or graduate students.

### **Synonyms**

- Student Housing

## U

### Underwritten Net Cash Flow

Net Cash Flow as adjusted by the Lender per [Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis](#) and the applicable products and features in [Part III](#).

### **Synonyms**

- Underwritten NCF