INVESTORS BULLISH ON STUDENT HOUSING

A discussion with some of the top investors in student housing reveals that they believe the sector is still growing and still offers plenty of room for improvement in operations and management.

By Randall Shearin

The top investors in the student housing sector, as ranked by Real Capital Analytics (see page 40 for chart), are familiar names in the industry. Even the newer names on the list now have established themselves with a strong presence in the industry. Some investors on the list have been on a tear in the student housing sector over the past 24 months, while others secured a spot by acquiring large portfolios in single transcactions. Campus Crest Communities (NYSE: CCG) acquired Copper Beech Townhomes in 2013, making for one of the larger transactions in the sector last year. Other firms, like Austin, Texas-based Virtus Real Estate Capital and Chicago-based Harrison Street Capital Real Estate, continue to invest directly and indirectly into the market at a steady pace. Inland American, listed at number four on the ranking, continues to buy and develop core properties close to campus.

American Campus Communities (NYSE: ACC) is listed as the top acquirer on Real Capital Analytics' list of the last 24 months. The company announced in early 2013 that it was focused on integrating the $2.2 billion in growth that it had in late 2012. The company is also focused on expanding its development pipeline. Acquisitions, says ACC President and CEO Bill Bayless, took on a secondary focus during 2013. Even with that, the company still acquired a few hundred million dollars worth of student housing properites.

BILL BAYLESS
President and CEO
American Campus Communities

"As it relates to acquisition and development opportunities, we are always focused on three criteria: pedestrian and bicycle access close to campus in Tier 1 markets; differentiated products; and being located in sub-markets with barriers to entry," says Bayless.

During 2013, the company acquired four core pedestrian-to-campus properties for $237.2 million. The four projects were an average of 0.1 miles to campus and averaged three years of age. All were 100 percent occupied.

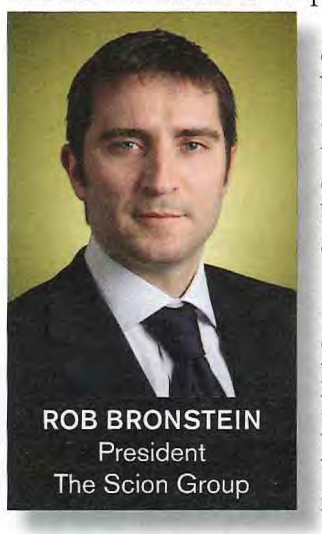
Among the acquisitions that ACC made in 2013 was Cardinal Towne at the University of Louisville. It is the closest off-campus housing to campus. ACC also acquired Park Point, adjacent to the Rochester Institute of Technology in Rochester, N.Y., for $110.5 million in the fourth quarter of 2013.

"We are always looking at those flagship assets," says Bayless. "Everything that we look at to add to our portfolio is based upon what we consider core product that is pedestrian-to-campus and newer in age, located in markets that are difficult to penetrate."

The Scion Group has invested just under $300 million in the student housing sector over the last 18 months, according to Rob Bronstein, the Chicago-based company's president. The company has been going at a pace of investing approximately $250 million per year into the sector.

"That is a pace that we are really comfortable with," says Bronstein. "By the end of 2014, we expect to end up somewhere near that mark."

Scion has changed the types of properties that it buys throughout its history. A few years ago, the company acquired properties with value-add components. Now, the company is more attracted to newer properties where it still sees the potential for increased returns.



ROB BRONSTEIN
President
The Scion Group

"We see the pricing and value expectations on the part of sellers of one-to-four-year-old buildings coming down to where they make sense for us," Bronstein says. "As long as we think there is a value-add component for us operationally, we will consider a property. Before, the value-add for us was primarily capital-related."

Scion has bought 11 properties from ACC and EdR. At the end of 2013, Scion purchased an 876-bed property known as the Pointe at Western from a subsidiary of EdR. Located in Kalamazoo, Mich., the property was built in 2001 and serves students at Western Michigan University. Scion has since re-branded the property as 58 West.

"Like the REITs, we are going to be very selective about what we buy," says Bronstein. "We are not going to throw money around to acquire an asset."

MICHAEL ORSAK
Senior Vice President
of Investments
Campus Advantage

Campus Advantage, ranked ninth by RCA, has two programmatic joint ventures with large pension funds to acquire student housing properties. The original equity commitment was around $225 million between the two funds, says Michael Orsak, the company's senior vice president of investments. The company has acquired about $300 million in assets over the last 12 months, and still has about $80 million in equity left that it plans to acquire assets with over the next 12 months, says Orsak.

"We are looking for core and value-add acquisitions," he says. "About 75 percent of our acquisitions will be focused on core properties, with 25 percent being value-add properties. We don't have any caps on either type."

The company will acquire core student housing assets anywhere in the country, as long as the market makes sense. For value add, it is more strategically focused, seeking opportunities that fit the company. Austin-based Campus Advantage also considers value-add a long-term strategy, versus an in-and-out return.

"There are properties that, with only Campus Advantage's understanding of the market or previous history with a property, make sense

TOP INVESTORS

for us from an investment strategy," says Orsak. "Our pension fund partners are relatively risk averse. Value-add is where they tread lightly. They want value-add strategies that turn into long-term holds. We look for value-add properties where, whether we stabilize it in three weeks or three years, we hold it for 10 ten years or longer."

Ranked as the 13th largest owner of student housing on *SHB*'s 2013 Top Owners of Student Housing, Campus Advantage has publicly said that it wants to be larger. The company had 8,700 beds at the time it was surveyed in fall 2013. Since then, it has acquired approximately 1,800 beds. The company continues to grow its overall portfolio on a selective basis.

"A lot of our growth will come from owned assets," says Orsak. "We would like to grow at a three-to-one ratio with respect of owned beds to third-party management."

Campus Advantage has also been growing its business internationally as well. The company has been doing a lot of management consulting. Its most recent assignment is with Far Eastern Federal University in Vladivostok, Russia.

Private equity fund Kayne Anderson Real Estate Advisors (KAREA) was in the news in 2012 for selling a large portfolio to ACC.

TOP BUYERS (PRIOR 24 MONTHS)

Rank	Buyer	Location	Acq $ (mil)
1	American Campus Communities	Austin, TX	2,054.0
2	Campus Crest Communities	Charlotte, NC	283.3
3	Harrison Street RE Capital	Chicago, IL	256.7
4	Inland American REIT	Oak Brook, IL	255.7
5	Virtus RE Capital	Austin, TX	240.6
6	EdR	Memphis, TN	217.9
7	State of Wisconsin Investment Board	Madison, WI	203.5
8	Scion Group	Chicago, IL	201.6
9	Campus Advantage	Austin, TX	198.3
10	Woodlark Companies	White Plains, NY	165.4
11	Kayne Anderson	Los Angeles, CA	163.4
12	Preiss Company	Raleigh, NC	162.0
13	Reichmann Int'l Dev Corp	Toronto, Canada	160.5
14	Lauderhill Partners	New York, NY	160.5
15	WestPac Investments	Santa Barbara, CA	111.7
16	Horizon Realty Advisors	Seattle, WA	102.7
17	Investcorp	Manama, Bahrain	100.0
18	H Katz Capital Group	Southampton, PA	96.8
19	MCS Capital Partners	Phoenix, AZ	92.2
20	Vesper Holdings LLC	New York, NY	92.0

Source: Real Capital Analytics, March 2014

SELECT 2014 TRANSACTIONS

400 Meeting Place
College of Charleston
160 Beds | Built 2013
Sold

2040 Lofts
Marquette University
612 Beds | Built Ph I 1956/2006
Ph II 2009
Sold

ON50
University of South Florida
444 Beds | Built 1997
Sold

42 North
University of South Florida
420 Beds | Built 1998
Sold

Riverside Ranch
Texas State University
372 Beds | Built 1987/2007
Sold

West 10
Florida State University
876 Beds | Built 2005 & 2006
Under Contract

Quadrangles Village
Arizona State University
756 Beds | Built 1987
Under Contract

Orchard Trails
University of Maine
576 Beds | Built 2006
Under Contract

GrandMarc at Tallahassee
Florida State University
371 Beds | Built 2009
Under Contract

West Chester Commons
West Chester University
459 Beds | Built 2004
Marketing

111 South
Georgia Southern University
709 Beds | Built 2013
Marketing

Vistas San Marcos
Texas State University
600 Beds | Built 2013
Marketing

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While the company has continued to invest in the sector, it has also begun to exercise its interest in other sectors over the last year.

"That's not indicative of a pivot away from student housing, it's just indicative of us finding some acquisition opportunities in healthcare-related real estate," says Managing Partner Al Rabil. "We continue to actively acquire and develop student housing."

AL RABIL
Managing Partner
Kayne Anderson
Real Estate Advisors

Most of Kayne Anderson's activity in the student housing sector is joint venture development. The company targetsopportunistic returns, says Rabil, and new development in the sector is where it sees those. The company seeks top quality properties at the nation's top tier universities.

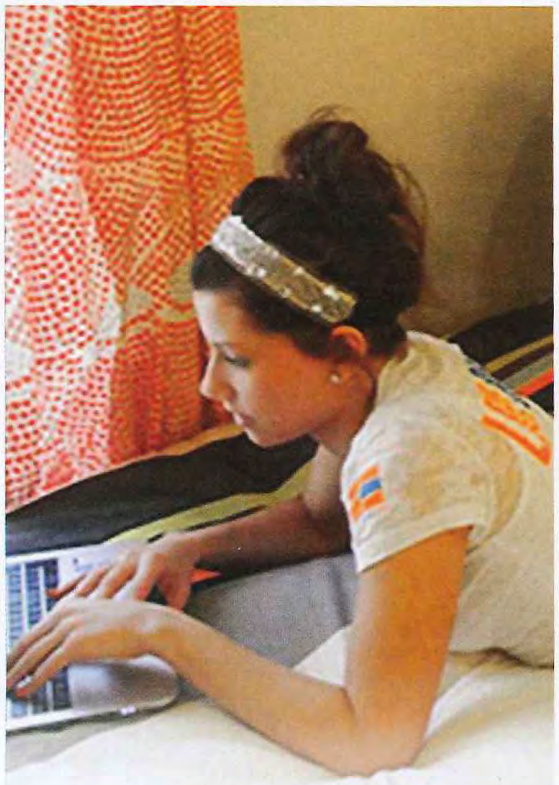
"The number of university markets that we target has gone from approximately 75, five or six years ago, to approximately 35 today," says Rabil. "That does not include some cities that we are interested in as well."

By September 1, Kayne Anderson anticipates that it will have 20,000 beds under ownership. The company has forward purchase contracts on a number of student housing properties, as well as second phases of some projects coming online. KAREA has a second phase of the Lofts at City Center that it is developing with Capstone Collegiate Communities in Tuscaloosa, Ala. It has a second phase coming on-line this fall of 13th & Olive at the University of Oregon in Eugene, also with Capstone Collegiate. The firm expects at that time to have another 6,000 beds under development or committed to opening for fall 2015. The company also has a number of deals under evaluation for fall 2016 delivery as well. Urban markets pique the company's interest because of the lack of purpose-built student housing and the high barriers to entry for new development. In Chicago, KAREA has a forward purchase contract with CA Ventures, who is developing an urban project called Infinite that will serve a number of universities.

"There is opportunity [in urban markets] for great operators and developers," says Rabil. "We have the capabilities of creating some projects that other people can't. We are actively involved in the creative side of the process of how to make these projects work."

> *"There is opportunity [in urban markets] for great operators and developers. We have the capabilities of creating some projects that other people can't.*
>
> — Al Rabil

KAREA also has developments underway with partners near several major universities. At Baylor University in Waco, Texas, it is under development with The Michaels Organization on The View, a 718-bed property. Close to Texas State University, KAREA is developing Cottages of San Marcos with Capstone Collegiate Communities. Near the University of Arizona, KAREA has partnered with Campus Ventures to develop Next, an urban project in



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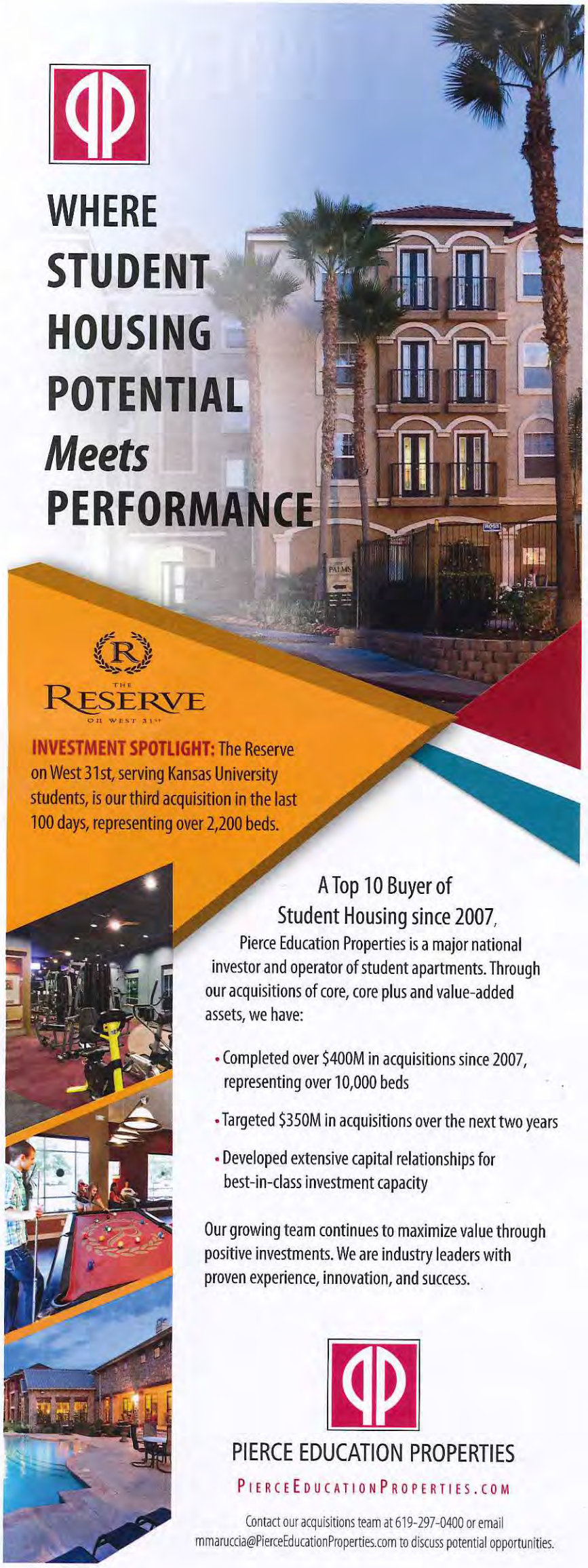

TOP INVESTORS

Tucson. KAREA has also partnered with CA Ventures on the Mountain Lofts at Rexburg at Brigham Young University-Idaho in Rexburg. At the University of Virginia, it has partnered with Ambling University Development Group to develop the Flats at West Village, a 622-bed project in Charlottesville that will open this fall.

Ranked at 14 is Lauderhill Partners, an affiliate of Campus Evolution. Andrew Stark and Evan Denner, both partners in Lauderhill, launched Campus Evolution at the end of 2012 and began acquiring turnaround properties in the sector. Stark was active as an investor in the early days of the student housing sector. He made a return to student housing, he says, because he believed the industry was fragmented, and thought that it could use some consolidation.

ANDREW STARK
Partner
Campus Evolution Villages

"Consolidation in the sector would make the most sense when doing something different than the way that other players were going about it," he says. "We decided to focus on brand building and the student experience, more than the bricks-and-sticks."

New York City-based Campus Evolution Villages is focused on turnaround properties. However, the turnarounds that the company is acquiring are mainly those that have operational or management issues, versus financial.

"We look for well located assets that are undermanaged," says Stark.

Campus Evolution Villages doesn't have a set volume that it plans to acquire in the future.

"We are motivated by the right opportunity," says Stark. "We think that we could probably acquire a few hundred million dollars more of student housing assets this year. We like pre-market opportunities. We don't chase the brand new, next-to-campus properties. We want to go where we have the biggest opportunity to bring value to the table."

At 20 on the list is New York City-based Vesper Holdings. The company looks for properties that are strong, core properties. Partner Isaac Sitt says that Vesper may not be the largest acquirer because it only buys what it considers strategic properties that work for the company. The company has acquired everything from properties that were a year or two old to mortgage notes on properties that were nearly 20 years old.

"We look for good business sense," says Sitt. "If it makes sense, we will do the deal. We are flexible in a lot of ways, especially with the vintage of the property and the size of the school."

ISAAC SITT
Partner
Vesper Holdings

What Vesper focuses on, says Sitt, is the student-to-bed ratio in the market. Vesper does not like to buy in overbuilt markets. The company also closely evaluates the property and its relationship and location to the university. It looks for properties that have strong enough foundations that they can provide or be converted to provide best-in-class amenities to students.

"Even if it needs work, that is fine as long as the bones are there," says Sitt. "Whether the property is fixed up or not, it has to make good business sense. We won't buy a property that is two miles from the university, where there is tons of developable land."

Vesper prefers to acquire near universities that have at least 10,000 students. Sitt says that number allows the company to have a shot at capturing a percentage of the student population. It also lessens the impact of new developments on the project.

"If you are buying 600 beds at a school with an enrollment of 6,000 students, even one new development can turn the market so that you can't even service your mortgage," he says. "That larger school also creates competition for more debt sources."

Vesper plans on continuing to grow its portfolio. It entered the sector nearly four years ago and is already among the top 25 owners of student housing, according to *SHB*.

"We have our feet wet and we are comfortable in the sector," says Sitt. "We are ramping up, looking to buy more and build a large portfolio. That being said, it has gotten quite competitive, even with the REITs on the sidelines, relatively speaking. Cap rates are low, and we are selective."

While the top investors all have said that they are selective about what they buy, most are still actively acquiring. None said they see signs of the industry slowing down and all reported that they perform an immense amount of due diligence on properties before offer or closing. Many say that there are changes happening in the sector that are affecting how they acquire and what they acquire.

"There's a bifurcation in the industry that's been happening in the sector for the last six to 12 months," says Bronstein. "There are going to be attractive developments that have good fundamentals behind them. They will find buyers at good valuations. At the same time, you are seeing other newly built properties that will probably never reach the pro-forma that the developer or backers thought they would. Capital is a lot savvier now than it was a year or two ago. A few years ago, people were willing to invest in an idea and a pro-forma. Today, investors demand real performance."

Capital availability, of course, has a lot to do with the velocity of acquisitions, as well as how many buyers there are in the market. While many of the top 20 buyers on RCA's list have institutional investor backing to acquire, the competition they face for properties often does not and is more dependent on traditional financing. As that changes, so does the buyer pool.

The amount of development in certain markets often also has an impact on where large acquirers will purchase. The industry has already seen markets like Tallahassee, Fla., and San Marcos, Texas, become heated, and large investors tend to watch this closely. In all, though, many investors feel that student housing is still fundamentally a good, growing business with a lot of untapped potential.

"There's too much development in too few markets," says Stark. "However, most markets still do not have enough student housing to meet the needs of the universities that they serve." **SHB**

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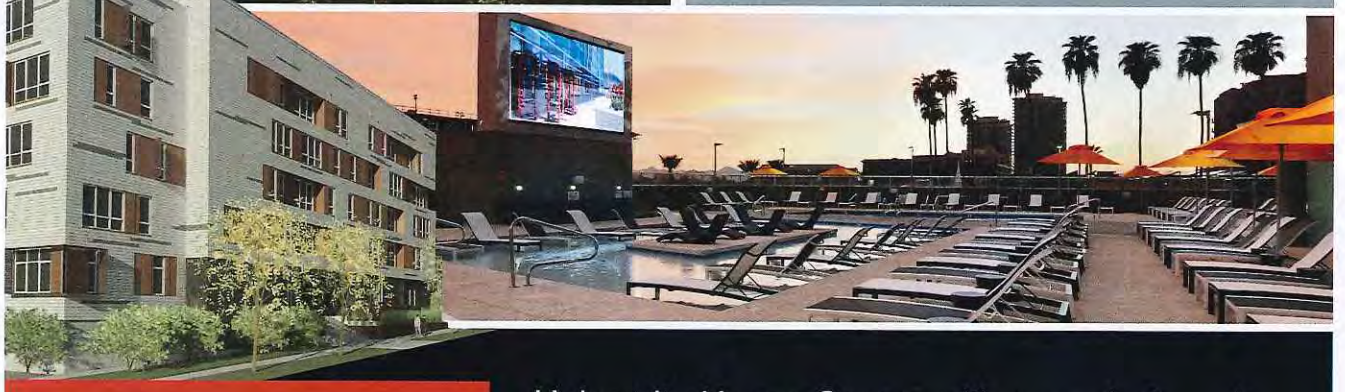

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