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## How To Invest In College Towns — Not Just The Kids' Education

### Booming Campuses, Full Apts.

Parents enjoy tax benefits from condos — but all can test student housing REITs

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After years of impressive growth, home values across the U.S. are starting to plateau.

So how can the real estate-minded hunt for returns?

One place to look is the student housing market on and around college campuses, advises Michael Zaransky, co-CEO of **Prime Property Investors** of Northbrook, Ill.

"This multihousing niche is growing because of demographics," said Zaransky, who wrote "Profit by Investing in Student Housing: Cash in on the Campus Housing Shortage." "About 80 million echo boomers born between 1982 and 1995 will turn 18 over the next 10 years. These children of the best educated and most affluent generation in America's history will be attending universities whose obsolete dormitories, on average, have beds for only 30% of today's enrollment."

On some campuses the housing shortage is critical. At Arizona State University in Tempe, the University of New Mexico in Albuquerque and the University of Nevada in Las Vegas, only about 10% of the student body has university housing.

For some parents, buying an off-campus condo can be a wise invest-

ment, especially if they finance it with a "kiddie condo loan" through the Federal Housing Administration. These take only a 3% down payment and let a student use a blood relative's cash and credit standing to finance the buy. The condo qualifies for all the tax advantages of a primary residence since it is considered owner-occupied, and renting space to roommates is allowed.

Investing in a kiddie condo can provide attractive long-term income. And it can cut the cost of a student's room and board, which the College Board says averages \$8,000 a year at private universities.

### Raising The Rents

Zaransky, whose company manages 15 dormitories on five campuses, says student housing can offer specific benefits to investors. While National Multi Housing Council data show traditional apartments have 85% occupancy on average and annual rent growth of 3%, he says, his firm's units at Purdue University in West Lafayette, Ind., are 100% occupied with 13% rent growth.

Thirteen percent increases may not be typical except around campuses like the University of Wisconsin in Madison and the University of California in Irvine, but 7% rent growth is, says an NMHC survey of 64 college towns. And a school's academic standing is irrelevant to return on investment. "The freshman class in many feeder universities is growing by 500 students a year," said Jim Arbury, NMHC senior vice president. "That's a couple of



In College Station, some Texas A&M University students live at American Campus Communities' Callaway Villas.

off-campus housing properties."

Instead of focusing on Harvard or Yale, Arbury says check out Western Michigan University in Kalamazoo and the University of Central Florida in Orlando, where enrollment has jumped from 1,948 students in 1968 to 47,000 now. For those who can't afford to purchase a multiunit building, one way to participate in the \$160 billion student housing market is through one of three real estate investment trusts: **American Campus Communities**<sup>ACC</sup>, **Education Realty Trust**<sup>EDR</sup> and **GMH**

**Communities Trust**<sup>GCT</sup>.

In the first half of 2006, equity REITs overall had a 16.12% total return (price appreciation and dividends), says the National Association of Real Estate Investment Trusts. During that time, American Campus Communities returned 10.07% and Education Realty 28.76%. Over the past year the stock prices of those two and GMH underperformed the S&P 500 — while over the past two years American Campus Communities outperformed it. Public universities prefer to spend

tax dollars on academics, so when new dorms are needed they often turn to outfits like Austin, Texas-based American Campus Communities. It manages 53 on- and off-campus properties with 32,000 beds.

"For most campus housing, we create a 501(c)(3) corporation, which develops land leased from the university by issuing tax-exempt bonds," said William Bayless, the company's president. "We receive fees for arranging financing, monitoring development and managing the resulting property."

Universities work with developers to spur mixed development nearby. For some, such as Philadelphia's Temple University and the University of Pennsylvania, redoing decrepit areas is a matter of survival. For others, such as Illinois State University in Normal, a modern gateway boosts school image.

Backed by \$200 million from the New Boston Fund, **Fairmount University Realty Trust** in Cleveland has become a big player in such development. Its University Circle — featuring restaurants and shops — on the periphery of Case Western Reserve University draws 70,000 people daily. Also planned: a \$60 million redevelopment in Normal and a 40-acre mixed-use center by Virginia Tech in Blacksburg.

### Demand Generation

"Urban mixed-use developments often revolve around a nonretail demand generator such as a city hall, regional library or cultural arts center," said Fairmount principal Randy Ruttenberg. "We believe a college or university can be the quintessential example of a nonretail demand generator in that it attracts students, faculty, administrative staff and their families."

Fairmount surveyed 350 schools for such development. "Universities have to compete for students, faculty and alumni interested in lifelong learning programs," Ruttenberg said. "Our goal is to create pedestrian-oriented places where students and faculty can join with the community to live, dine and shop."