

Is Now the Time to Build or Buy?

With factors favorable for acquisitions and development, investors and developers weigh in on their choices at this point in the cycle.

By Lindsey Walker Marcec

When asked the question ‘Is now the time to build or buy?’ many industry leaders had the same response: “It depends.” It depends on the market. It depends on the individual firm’s investment goals and criteria. It depends on which opportunities have the potential to create the highest yields. And, it depends on the company’s expertise.

“It is becoming increasingly difficult for a company to be good at both acquisitions and development, as both are so specialized and are only getting more specialized with each passing year,” says Rob Bronstein, president of Chicago-based student housing owner, operator and advisory service The Scion Group.

Whether a company is focused on developing new product or investing in existing assets — or a combination of both — there are deals to be made in the current environment. Here’s a closer look at how leading student housing developers and investors are finding — and creating — opportunities in the sector.

The Deal with Development

Developing new purpose-built student housing is not exactly a simple, straightforward process in today’s market. Construction lending has tightened. Construction costs have gone up. And development yields are lower than in the previous two years.

“We’re generally targeting 6.5 percent to 7 percent yields for urban infill projects, and slightly higher for non-pedestrian cottage deals,” says Wes Rogers, president of Athens, Georgia-based Landmark Properties, which specializes in the investment, development, construction and management of student housing communities. That is approximately 25 to 50 basis points lower than a year ago and 50 to 75 basis points lower than two years ago, Rogers contends.

Even so, well-capitalized student housing developers like Landmark Properties, which currently has 12 new developments under construction worth approximately \$1 billion, continue to find opportunities in 2016 that make sense.



CA Student Living recently broke ground on a student housing project and Hyatt Place hotel near the University of Iowa.

“Supply and demand fundamentals are still encouraging in many of the markets that meet our investment criteria,” Rogers says. “With the tightening of the construction loan markets, supply should be even further constrained — making it even more compelling to develop, particularly in the growth markets, if you can get financing.”

JJ Smith, chief operating officer with Chicago-based CA Ventures, agrees that this is a good thing for experienced developers. CA Ventures is the parent company to CA Student Living, a developer, manager and investor of

student housing assets.

“The number of beds delivered has started to come down, and we view that as a positive for companies that can still get projects built,” Smith says.

CA Student Living, which builds and develops 4,000 to 5,000 beds per year, is targeting Tier 1 flagship universities with 25,000 students or greater, especially those that don’t have a national student housing presence.

“We’re looking where we think others aren’t,” Smith says.

The University of Iowa in Iowa City is

BUILD VS. BUY

one of those markets. The company recently broke ground for the city's first new purpose-built student housing product, which will deliver in 2018. The project is a mixed-use high-rise that will include a hotel — Hyatt Place — in the same building.

"We were able to identify the additional demand for hotel space and come up with a concept the city

liked," Smith says. "The plan also will meet demand for affordable housing with 10 percent of the units set aside. Municipalities are catching up to affordable housing needs within these communities."

By working with the city to include these affordable housing units, as well as a hospitality component, CA Student Living was able to overcome what can sometimes be a contentious relationship between municipalities and student housing developers in markets where there isn't a large purpose-built student housing presence.

"A lot of municipalities aren't as welcoming to the term student housing in general," Smith says. "They hear those words and think 'Animal House'."

Landmark, which sources approximately 80 percent of its sites off market, faces its own set of challenges when getting new projects approved in its target markets — which are Tier 1 public univer-



Harrison Street and Midway Companies are developing Century Square near Texas A&M University in College Station.



JJ SMITH
Chief Operating Officer,
CA Ventures

sities and a select number of Tier 2 public and private universities with enrollments of 15,000 or more.

"Sourcing off market generally requires the assembling of multiple properties and lengthy entitlement processes," Rogers says. "It's not uncommon to spend more than a year and several million dollars on a project before we know whether it's a 'go' or not."

Playing Both Sides

Indianapolis-based student housing developer Annex Student Living has a portfolio of assets that are 70 percent new development and 30 percent acquisition, and the company continues to see opportunity in its target markets, which are institutions with fewer than 15,000 students.

Annex Student Living's investment thesis — whether to build or



AGGRESSIVELY GROWING OUR STUDENT HOUSING PORTFOLIO

Acquisition Criteria:

- Purchase Price from \$5M - \$135M
- Class A, B and C level assets
- Within 2 miles from campus
- Core to Value Add throughout the U.S.
- Minimum enrollment of 15,000 students



Recent Acquisitions:

- Gateway at University of North Texas
- Campus View Collection at Michigan State
- Gateway at Texas Tech
- Element on Main at University of Illinois



Brigham Young University



Michigan State University



Texas Tech University



University of North Texas



University of Illinois



University of Oregon



UC Santa Barbara



Washington State University

Contact: Adam Barzilay
Partner & Director of Acquisitions
(310) 395-3430 ext. 218
abarzilay@mjwinvestments.com

MJW Investments, Inc.
1650 5th Street, Suite 112
Santa Monica, CA 90401
www.mjwinvestments.com

BUILD VS. BUY

buy — is based solely off of each individual market, site location and potential yield.

“Once we identify the market, we then look at proximity to campus,” says Kyle Bach, chief executive officer with Annex Student Living. “If there happens to be an existing multifamily community within our target distance to campus and we think there’s value in that asset, we’re not opposed to buying.”



KYLE BACH

Chief Executive Officer,
Annex Student Living

For example, Annex Student Living acquired two properties adjacent to Indiana University Southeast in New Albany, Indiana, when it saw a unique opportunity to add value. One was a dedicated student housing facility, and the other was a Section 42 low-income tax-credit facility.

“We took down the entire asset with the intention of making it a dedicated student housing complex branded as Annex of New Albany,” Bach says. “The affordable housing facility had been limited in what it could charge. Once we did a substantial renovation and lifted those restrictions, we could rent on a per-bed basis and drastically exceed the previous rent cap. It increased the value of that asset significantly.”

Annex Student Living’s goal is to have 25,000 beds by 2025, which comes down to 1,500 newly constructed beds and 800 acquired beds per year. To meet the new development metrics, the company is getting creative when working with cities to help combat increasing land and con-

(continued on page 42)

JOINT VENTURE PARTNERSHIPS



ON-CAMPUS

OFF-CAMPUS

MULTI-FAMILY

MIXED-USE

University Student Living, LLC is the comprehensive student and multi-family housing company of The Michaels Organization, whose portfolio represents over 380 diverse communities in 34 states and \$1 billion in annual revenues.



A COMPANY OF THE MICHAELS ORGANIZATION



855.255.4181

www.universitystudentliving.com

BUILD VS. BUY

struction prices and meager rent growths in the smaller markets it targets.

"We seek incentives — typically

in the form of a real estate tax abatement or tax-increment financing model — from the city," Bach says. "Or, we look at other avenues. For

example, one city wanted to see mixed-use incorporated, so we got creative with our design and our plan so that the city will be master leasing the retail from us. It took some extra education and support on our end, but it was a win-win for us and the municipality."

Harrison Street Real Estate Capital, a Chicago-based real estate investment management firm, is also seeing opportunities — and success — in both buying and building.

ment and acquisition," says Ben Mohns, senior vice president with Harrison Street. "The University of Nevada, Reno's expansion and out-of-state recruitment has led to outpaced growth and high demand for purpose-built housing."

With regards to dispositions, Mohns contends that the firm continues to see a tremendous appetite for newly constructed, pedestrian-to-campus assets.

"The buyer pool has become increasingly diverse and institutional, giving credence to the continued sophistication of the space," he says.

As Harrison Street looks for additional opportunities, its focus is not limited to off-campus student housing.

"We've been increasingly active in the on-campus, P3 [public-private partnership] world, which is an excellent fit for our capital and has resonated with our investors," Gronlie says. "Additionally, we have provided equity for hotel and mixed-use developments around universities. Broadly, we are trying to find new ways to invest that are associated with the demand driven by universities and education."

Century Square, a 60-acre mixed-use development adjacent to Texas A&M University in College Station, is an example of Harrison Street's expanded education-related portfolio. The firm is working with Houston-based investment and development firm Midway Companies on the project, which will include retail, restaurant, entertainment, office, hotel, multifamily and community space. The first phase will open this fall.

An Eye for Acquisition

For those looking to acquire student housing assets, now is an excellent time to invest, according to Isaac Sitt, co-founder and chief executive officer of New York-based Vesper Holdings, a privately held real estate investment firm. Vesper Holdings focuses on large, public universities with a minimum of 10,000 students, though the firm works most often in markets with 20,000 students or more.

"Public universities are less susceptible to economic downturns because they are more affordable and more available to people," Sitt says. "We also look at



EXPERTS IN EXCELLENCE



TRINITAS®

OWNER • INVESTOR • BUILDER • MANAGER

WWW.TRINITAS.VENTURES

CORPORATE OFFICE : 765.464.2800



JUSTIN GRONLIE
Vice President,
Harrison Street Real
Estate Capital

"This year has been unique," says Justin Gronlie, vice president with Harrison Street. "Development starts, in general, are down due to rising construction costs and an increasingly conservative construction lending market. This has caused a consolidation of opportunities among the strongest, most experienced, well-capitalized developers."

Even so, thanks to the relationships Harrison Street has established and fostered with its development partners over the last 10 years, the firm continues to see a consistent — if not increasing — level of opportunities, according to Gronlie.

For example, at the University of Nevada, Reno, Harrison Street is developing a student housing property with Houston-based The Dinerstein Companies. It's the second time the two companies are working together on a new development in the market, which Harrison Street finds attractive due to an imbalance in supply and demand.

"When we like a market, we pursue it aggressively in both develop-

BUILD VS. BUY



ISAAC SITT
Co-founder and CEO,
Vesper Holdings

“We’ve been in the sector for two decades, and I’d say the environment has never been greater for investment in student housing.”

*— Fred Pierce, president and chief executive officer,
Pierce Education Properties*



BEN MOHNS
Senior Vice President,
Harrison Street Real
Estate Capital

states with projected growth in high school graduation rates and immigration. Those are the markets where we like to play.”

Sitt notes that, with the current cap rates, it’s the value-add side of the business where there’s the most opportunity. Vesper Holdings currently has approximately 9,000 beds, but, Sitt says, the firm will be close to doubling that number by the end of the year.

“Once you create value, it’s easier to unlock value,” he says. “The three best ways to unlock an asset’s value are to either make physical improvements to the building itself, reposition it in the market, or improve it from an operational and management point of view.”

Vesper Holdings recently saw success by adding value to an asset it acquired in 2014 near the University of South Florida in Tampa. At the time of acquisition, the property’s annual rental income was

\$5.1 million and occupancy stood at 92 percent.

“There wasn’t a lot of deferred maintenance, but there was a lot of deferred opportunity,” Sitt says.

The firm spent \$2 million in improvements to the property, focusing on its amenity package. The company converted the clubhouse into a modern, cutting-edge gym; built out the business center with a Starbucks coffee machine and a collaborative working space; and resurfaced the pool and

brought in new furniture, like day cabanas, and features like pool-side towel service.

“By Memorial Day, the property was 100 percent pre-leased with a 100-person waiting list,” Sitt says. “Our rent roll will be \$6 million this year.”

Fred Pierce, president and chief executive officer of San Diego-based student housing operating company Pierce Education Prop-

THE MARKET LEADER CBRE National Student Housing

More Than \$7.7 Billion Closed
www.cbre.com/studenthousing

SELECT TRANSACTIONS

BLVD63
San Diego State University | 1,379 Beds
AVAILABLE

AVAILABLE
Sterling Summit
University of Nevada - Reno
709 Beds

AVAILABLE
Junction at Iron Horse
University of Arizona
232 Beds

AVAILABLE
Hawks Pointe
University of Kansas
468 Beds

AVAILABLE
2818 Place | Parkway Place
Texas A&M University
632 Beds | 496 Beds

UNDER CONTRACT
University View
University of Maryland
1,573 Beds

UNDER CONTRACT
Top Tier Institutional
Various
8 Properties | 4,925 Beds

UNDER CONTRACT
Circle University City
University of NC - Charlotte
546 Beds

UNDER CONTRACT
Burnham 310
University of Illinois - Champaign
437 Beds

UNDER CONTRACT
Campus Lodge Tampa
University of South Florida
1,067 Beds

UNDER CONTRACT
Tucson Land Offering
University of Arizona
0.74 Acres

UNDER CONTRACT
Gateway at Columbia
University of Missouri
450 Beds

SOLD
Campus Circle
Florida State University
679 Beds

SOLD
The Avenue
University of Indiana - Purdue
358 Beds

SOLD
4050 Lofts
University of Florida
722 Beds

FINANCED
Park Place - LSU & Baylor
Various
2 Properties | 1,469 Beds

FINANCED
U Raleigh
NC State University
600 Beds

FINANCED
Gateway at Denton
University of North Texas
696 Beds

SOLD/FINANCED
One West Victory
SCAD
338 Beds

SOLD
Lighthouse
University of NC - Wilmington
348 Beds

SOLD
Foundry Lofts
University of Michigan
518 Beds

SOLD
The Landing
East Carolina University
888 Beds

INVESTMENT SALES

JACLYN FITTS
214.979.6524
jaclyn.fitts@cbre.com

WILLIAM VONDERFECHT
214.979.6194
william.vonderfecht@cbre.com

CASEY SCHAEFER
214.979.6364
casey.schaefer@cbre.com

DEBT & STRUCTURED FINANCE

BEN ROELKE
214.979.5609
ben.roelke@cbre.com

MIKE BRYANT
214.979.5612
mike.bryant@cbre.com

erties (PEP), agrees that now is a good time to invest.

“We’ve been in the sector for two decades, and I’d say the environment has never been greater for investment in student housing,” Pierce says.

That is evidenced by the \$200 million of investment sales transactions PEP has experienced during the first six months of 2016 — twice as much as the firm’s total volume for 2015. And, within its investment profile of public universities with 15,000 students or more and Division I football, Pierce says the firm continues to see ample opportunities.



FRED PIERCE,
President and CEO,
Pierce Education
Properties

In addition to an increase in portfolios trading across the sector, he notes there will be a window in the next 18 months as 10-year CMBS loans — which were popular during 2006 and 2007 — will be maturing.

“That will bring even more opportunities to the marketplace,” he says.

But, there continues to be inefficiencies in the space, Pierce contends.

“The list of buyers who have bought \$200 million or more and are still actively buying is a small group,” he says. “With such a narrow universe of buyers, that means there are inefficiencies in dispositions.”

Like Sitt, Pierce also notes that, thanks to buyers paying a premium for new, high-end, pedestrian assets, cap rate compression has been significant for those properties, and it’s become increasingly difficult to find upside.

“Nevertheless, there is a pool of strong buyers who continue to pre-

fer properties with that profile,” Pierce says.

Scion, which has acquired approximately \$2 billion in student housing assets in the last 18 months, seeks portfolios with a

diverse group of assets. The company prefers properties that it can own and operate, and plans to continue to grow its portfolio of nearly 40,000 beds by 10,000 to 15,000 beds owned per year.

“We’ve made the determination that our expertise is on operations,” says Bronstein. “We have a long-term plan and it’s to build something very significant and cohesive in the student space. We believe the

**The Connection
at Huntsville**
\$23 Million
Huntsville, Texas
Fannie Mae

College Suites
\$13 Million
Bowling Green,
Kentucky
Fannie Mae

The Landing
\$23 Million
Greenville,
North Carolina
Fannie Mae

**South Duff
at Iowa State**
\$12 Million
Ames, Iowa
Fannie Mae

**Campus View
Apartments**
\$23 Million
Clemson,
South Carolina
Fannie Mae

**Village at
Bluegrass**
\$13 Million
Mt. Pleasant,
Michigan
Fannie Mae

Ideas have the power to move buildings.

To learn more, contact:
Todd Goulet at 617-385-6262 or
todd_a_goulet@keybank.com
Charlie Williams at 720-904-4449 or
charles_h_williams@keybank.com
Jon Reible at 602-778-4092 or
jon_p_reible@keybank.com

Visit key.com/realestate

KeyBank
Real Estate Capital

Banking products and services are offered by KeyBank National Association. All credit, loan and leasing products subject to credit approval. Key.com is a federally registered service mark of KeyCorp.
©2016 KeyCorp. **KeyBank is Member FDIC.** 160627-99218



**WHERE
STUDENT
HOUSING
POTENTIAL
Meets
PERFORMANCE**

**\$800+ MILLION
IN ACQUISITIONS**

**THE
RESERVE
AT ATHENS**

INVESTMENT SPOTLIGHT:

The Reserve at Athens is a 612-bed, 200-unit community nestled in a forested area just west of the University of Georgia campus in Athens, GA

**A Top 10 Buyer of
Student Housing since 2007,**

Pierce Education Properties is a major national investor and operator of student apartments. Through our acquisitions of core, core plus and value-added assets, we have:

- Completed more than \$800+ million in acquisitions since 2007, representing approximately 20,000 beds
- Targeted \$400+ million in acquisitions over the next three years
- Developed extensive capital relationships for best-in-class investment capacity and execution

Our growing team continues to maximize value through positive investments. We are industry leaders with proven experience, innovation, and success.



PIERCE EDUCATION PROPERTIES

PIERCEEDUCATIONPROPERTIES.COM

Contact our acquisitions team at 619-297-0400 or email mmaruccia@PierceEducationProperties.com to discuss potential opportunities.

BUILD VS. BUY

opportunities to acquire and consolidate are incredibly attractive.”

Scion kicked off the year with the \$1.4 billion acquisition of the 13,000-bed University House Communities Group portfolio through a joint venture. Now in 40 major university campus markets, the company is looking to identify in which of those markets it wants to grow and scale up accordingly.

“It’s about the market, followed by the quality of the operating platform, followed by the asset,” Bronstein says. “University House has provided us with a diverse price point and has gotten us into additional markets where we want to grow our presence.”

Santa Monica, California-based MJW Investments also focuses on assets where the company can inject long-term value. The real estate developer and owner seeks to acquire between \$100 million and \$200 million a year in student housing, and is aggressively expanding its portfolio in the sector.

“We’re finding we have to spend more time with operations to create value than we did before,” says Mark Weinstein, founder and president of MJW Investments. “Now more than ever, you have to know your competition and your customer.”

MJW Investments targets universities like the University of Michigan, Michigan State University and the University of North Texas that have great student enrollment and great sports teams, and are supply-constrained for off-campus product. For example, MJW Investments recently closed on a deal at the University of North Texas in Denton that Weinstein considers a medium value-add.

“It’s in a great location, but, the best thing about it is that we locked in for 3.66 percent interest for 10 years, and five years of interest only,” he says. “It was a 73 loan-to-value ratio. It’s a good long-term deal that will get even better as we make improvements over time.”

Words of Wisdom

Looking ahead, Sitt feels confident that the opportunities for acquisitions will only increase.

“We’re still in the third inning of a nascent industry,” Sitt says. “There is more liquidity than ever before.”

But, no matter the strategy, industry veterans have some words of wisdom for others looking to build new or buy existing student housing product in today’s environment: Make sure to align with an expert.

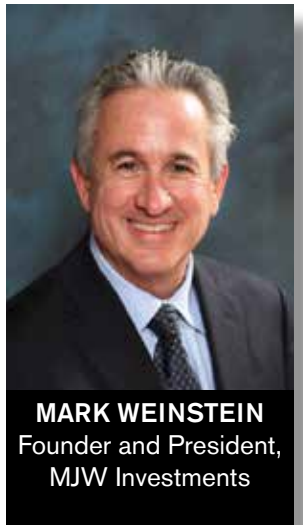
“Development today is more challenging and risky than ever,” Rogers says. “Be prepared to take up-front risk and make sure you have a team that can execute. Picking the wrong site, delivering late or having construction overruns can be very costly.”

“Having operational experience in the sector is essential,” Smith says. “For capital coming in, aligning with an experienced and seasoned operator are the most prudent words of wisdom.”

SHB



ROB BRONSTEIN
President,
The Scion Group



MARK WEINSTEIN
Founder and President,
MJW Investments



WES ROGERS
President,
Landmark Properties