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Student-Housing Developments Gain Respect

Returns of REITs Owning the Complexes Rise Along With New Projects and Sales; No Longer the 'Animal House' Image

By Dawn Wotafka

Student housing, long associated with beer pong, communal bathrooms and wild parties, has traditionally been a laggard in the apartment-building business.

But lately, the student-housing sector has been gaining respect. With enrollment in colleges rising and landlords boosting rents, returns of real-estate investment trusts that own student housing are beginning to approach those that focus on more conventional rental apartments. New development and sales of the properties are increasing.

American Campus Communities Inc., the nation's first and largest student-housing REIT, which owns and manages 137 properties, has posted a return topping 30% in the past 12 months through May 31, excluding dividends.

Education Realty Trust Inc., with 57 properties, has had a gain topping 35% for the same period.

UBS Investment Bank recently upgraded both companies—the small sector's two big players—to "buy," from "neutral," saying they are poised "to generate double-digit funds-from-operations growth in 2012 and 2013."

By comparison, **Equity Residential**, the largest apartment REIT by market capitalization, gained 37% in the past 12 months.

Student housing "has come a long way, from people totally being scared to death of it, thinking about it as 'Animal House,'" says Jim Arbury, vice president of student housing for the National Multi Housing Council trade group. "The niche days are long gone."

Apartment buildings in general have become one of the favored property types in commercial real estate, thanks to a dearth of new development and growing demand from people who have soured on the dream of home ownership.

Economic forces also are buoying student-housing complexes, which typically resemble



Amenities are needed to attract student renters. Above, student housing in Nacogdoches, Texas, near Stephen F. Austin State University.

traditional apartment complexes, with each student getting their own bedroom and bathroom but sharing living rooms, kitchens and other common areas. With colleges cutting capital budgets, little new supply was added during the downturn.

Meanwhile, the "echo boomers"—the children of baby boomers—continue to reach college age. More than three million high schoolers are expected to graduate each year until the 2018-19 academic year, compared with just under 2.5 million in 1993-94, according to the Department of Education.

"The demographics and trends are compelling, both on the supply and demand side," said Ted Rollins, chief executive of **Campus Crest Communities Inc.**, which operates 27 proper-

ties and went public last October. "It's very unusual that you find those two types of things happening concurrently."

To be sure, investors in student housing face risks. The newfound popularity of campus housing is driving up the prices of developments for purchasers and sparking development, which could lead to an oversupply.

Student-housing complexes also are more management-intensive than traditional apartments. Turnover is high, and leases are short. Matching roommates together successfully is a challenge, as is helping guide the youths leaving their parents for the first time.

There also is the risk of a newer, flashier project going up closer to school.

"We want to be adjacent to campus so nobody can build between us and campus," says Rick Coppola, managing director of real-estate finance for **TIAA-CREF**.

But many student-housing operators boast that occupancy is in the high 90% range and expect rent growth of between 2% and 6% this year, according to Ryan Reid, national director of student housing at brokerage CB Richard Ellis.

At Education Realty's **Grand Marc** at the Corner near the University of Virginia, the one-bedroom, one-bath units that have a gourmet kitchen start at \$1,255 a month. The four-bedroom, four-bath units begin at \$729 a person.

Not surprisingly, buyer interest is strong. In the first quarter

of 2011, roughly \$500 million of properties changed hands, compared with \$1.1 billion in all of 2010, according to Marcus & Millichap, a real-estate investment brokerage firm. Last year, **Freddie Mac** originated or guaranteed \$807 million of such mortgages, and it expects to top \$1 billion this year.

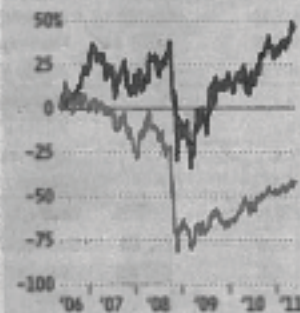
In late April, **Behringer Harvard**, a nontraded REIT, said it purchased two communities within two miles of the University of Georgia's Athens campus: the 266-unit **River Club** for \$23 million and the 100-unit **River Walk** for \$9.8 million. The company plans to spend more than \$2 million upgrading appliances, finishes and technology.

Behringer Harvard wouldn't disclose its return. But downtown properties have been pro-

Making the Grade

Stock prices of student-housing operators are rising. Share performance, weekly data

—American Campus Communities
—Education Realty Trust



Source: WSJ Market Data Group

viding some buyers of urban properties initial yields of 5.75%, while suburban property buyers can see up to 6.75%, said Robert W. Baird analyst Paula Poskon, citing information from a recent industry conference. In the past 18 months, yields have fallen as much as two percentage points in some markets, she said.

As values have risen, developers have dusted off plans and lenders have become more willing to provide financing, although not on as generous terms as during the boom years. **Campus Crest**, for example, has six housing complexes under construction and is planning to break ground on six to eight more.

While amenities and services cut into the profit, operators say they are essential to attract student renters. Pool tables and videogames are almost standard. More operators are adding resort-style pools, tanning beds, theaters and, in some cases, maid service and personal trainers.

"When you think about what students today want in their housing, think about what a W or Westin [hotel] may offer in the way of amenities and services," said Dorothy Jackman, a Marcus & Millichap vice president of investments.