

Demand drives private dorms

Off-campus university student housing has become a booming business.

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In July, Global City Development completed the One at University City, a \$231-million, 1,244-bed private dorm across the street in Sweetwater from one of the state's and nation's largest universities, Florida International. Over their careers, the principals of Miami-based Global City have developed \$10 billion in high-rise residential and other real estate, but this was their first dorm.

The project fit their development goals of aligning with a "public good" — education, in this case, says principal Brian Pearl. The money in student housing isn't bad either. "For equity investors in the typical student housing deal, they can make 20 percent-plus a year," he says.

That kind of return explains why developers and investors have poured into the private dorm market around Florida campuses. Since 2011, the state has added 40,000 privately owned, off-campus beds, second only to Texas nationally, according to RealPage, a property management software company. Florida universities have

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been "a popular choice" for developers, says Carl Whitaker, market analyst at Texas-based RealPage. "That's not a terribly surprising trend though, as many Florida-based universities are among the nation's fastest growing," he says.

Since 2011, Tallahassee has led the nation with 13,300 privately built off-campus beds. Another 1,600 will come by fall 2022, according to RealPage. Gainesville, over the same period, gained 8,400 beds off campus, including 2,600 this year, tops in the nation for 2020. The areas around the University of South Florida and the University of Central Florida each added 5,000 private beds since 2011.

After the Great Recession, dorm building's seeming immunity from economic cycles drew institutional and international investors. Tenants are young, leasing windows short, turnover and wear-and-tear high, but enrollment was growing nationally and dorm rent tends to be parent-guaranteed. Plus, colleges weren't building on-campus dorms as fast as they were adding students.

Developers stepped in and competed for students by offering luxury products — the One has a 5,000-sq.-ft. pool — that are a far cry from the rundown houses previous generations of students shared with several housemates. The new housing catered to young people who grew up without ever having shared a bedroom. The dorms offered fitness centers and — often — a bathroom for every bedroom.

Early this year, transaction prices per unit and per bed nationally were near records at \$235,429 and \$96,295, respectively, according to commercial real estate broker Newmark Knight Frank.

The sector, however, was seeing challenges. An amenity arms race meant buildings that were only a decade old were becoming obsolete. Rent increases slowed in markets with oversupply. The small fraction of student housing debt that had been turned into commercial mortgage-backed securities showed rising delinquency rates, especially compared to the overall apartment rental market. The rate rose to 3.8 percent in April, up from 0.2 percent in January 2018 — before popping above 9 percent in May amid

DBRSMorningstar.

There has been uncertainty over whether parents would pay for students to live in dorms while studying online. Meanwhile, a Florida congressman, U.S. Rep Al Lawson, a Democrat, called for private dorms to allow students to break leases without penalty. And the mother of a UCF student sued her daughter's private dorm because it wouldn't return rent after her daughter came home when the university went online. Private dorm owners, beholden to lenders, investors and bills for insurance and property taxes, lacked the flexibility that universities — supplemented by federal coronavirus aid — had to let students out of leases.

The sector's prospects were said to be dimming. Midtown Campus Properties, a development vehicle allied with Miami-based Roger Development Group, in May sought Chapter 11 protection for Midtown and the 589-bed dorm project it was building near UF and Ben Hill Griffin Stadium. Roger CEO Oscar A. Roger, in a court filing, blamed construction delays from Hurricane Irma, labor shortages, disputes with its general contractor and, finally, the pandemic and the uncertainty over whether UF would reopen. Midtown was financed with \$77.8 million in Florida Development Finance student housing revenue bonds. Efforts to obtain an interview with Roger Development were unsuccessful.

Midtown, however, appears a one-off. Florida dorm properties — and most nationally — have largely skated. "Students still wanted to be on campus," says Gwen Roush, a senior vice president with DBRSMorningstar. None of the troubled loans DBRSMorningstar tracks is secured by Florida dorms.

Nationally, private dorms also benefited by picking up the displaced as colleges "de-densified" on-campus dorms. Those with a bathroom for every bedroom had value for students in the pandemic. At the One, just over half of the units are one bedrooms or studios. "Highly unusual for student housing," says Pearl, the principal with developer Global City, but "it played to our advantage with the virus."

Pearl says he hoped pre-pandemic to open at 95 percent occupancy. It fell short but still "above" 90 percent.



Global City Development

The One student-housing complex next to Florida International University in Miami.

Off-campus, privately constructed dorm rooms

University	Up Until 2020	Planned 2021-22
Embrey-Riddle Aeronautical University	976	0
Florida A&M University	1,044	0
Florida Atlantic University (Boca Raton)	763	0
Florida Gulf Coast University	2,060	0
Florida International University	2,217	1,086
Florida International University (Biscayne Bay Campus)	410	0
Florida State University	30,316	1,606
Jacksonville University	185	0
Nova Southeastern University	775	0
Santa Fe College	1,176	0
Stetson University	72	0
University of Central Florida	17,648	0
University of Florida	24,804	785
University of Miami	799	1,340
University of North Florida	1,782	0
University of South Florida	14,406	0
University of Tampa	136	537
University of West Florida	1,043	400
Valencia College (East Campus)	0	456

Source: RealPage

repeated throughout the sector. Treo Group, for example, opened a 602-bed student housing community, Vox Tallahassee, in August

Carlos Ortega, principal of the Miami-based Treo. "Fortunately, student housing has once again proven to be a very resilient asset

The pandemic has affected the owners' ability to push rents, however. Overall at the One, Pearl says, rents came in at 5 to 6 percent

ket is really its own submarket," says Ryan Lang, a UF grad and vice chairman and head of Newmark Knight Frank's student housing division in Austin, Texas. For instance, a number of developers and investors are interested only in dorm projects near large, public universities that belong to major athletic conferences. Private dorms within a mile of Power 5 conference universities command an average price per bed 30.9 percent higher than other dorms, according to Real Capital Analytics. The FIU Panthers compete in Conference USA, and the One has a rooftop deck overlooking the football stadium. "We're very selective. It's basically right across the street from the campus," Pearl says.

The One was financed with \$231 million in private activity bonds, the same tax-exempt, government-sponsored debt that passenger rail company Brightline uses to construct its Florida rail lines and Las Vegas-Southern California train line. The bond issue for the One, offered in 2018, was one of the largest of that financing type for off-campus housing in the nation. The bonds mean lower interest costs for Global City. As a condition to get 100 percent financing for the project, the One — really, the bond holder owners — will make annual payments to FIU that will fund \$50 million in scholarships over the 40-year life of the bonds and turn over the dorm to FIU in 2058.

There's so much development in Florida and the nation that some fret about overbuilding. David Druey, regional president for Centennial Bank, which is lending to developer Treo for a new Vox Miami student housing project, worries about the staying power of the student market and likes to see a secondary market that can be tapped for tenants if students don't materialize. Developers, looking for a fall-back market, design projects to appeal to both young professionals and students. Lang, head of Newmark Knight Frank's student housing division, says that looking forward, Florida "is in a pretty good spot."

Berkadia, another commercial real estate broker, projects the state will add 23,000 students over five years. They bring in development fees, decades of asset management fees and "we're able to pay back our invest-