

# Best Year Ever

*Transaction volume is high and taking some unique turns, cap rates are going down, and healthy supply and demand metrics are making for a banner 2016.*

By Lynn Peisner

Exciting. High-volume. A record year. These are common phrases used by many who watch the student housing investment market to describe 2016.

While the fourth quarter has traditionally been the busiest for transactions, the market was already the strongest year the industry has seen in terms of transaction volume and sales totals.

"This year's closings will represent an unprecedented time in the industry," says Peter Katz, executive director, national student housing investment sales, Institutional Property Advisors. Katz points to The Harrison Street Real Estate Capital (HSRE) acquisition of 38,000 beds for \$1.9 billion and The Scion Group's joint venture acquisition of University House Communities' (UHC) approximately 13,000 beds for \$1.4 billion as this year's hallmark trades. A third large transaction closed at the end of third quarter when Vesper Holdings acquired a portfolio of 4,925 beds. (See sidebar on page 46.)

"We believe that timing for continued consolidation of the sector could not be better," says Avi Lewittes, chief investment officer of The Scion Group. "Strong macro fundamentals and unprecedented capital markets liquidity have attracted significant institutional equity interest in student housing. We and our partners, GIC and CPPIB, are pleased with our recent UHC acquisition and look forward to leveraging Scion's established operating platform and acquiring more properties in our targeted top-tier campus markets."

"Contributing factors to this year's record investment sales are institutional equity seeking risk-adjusted yields in student housing compared to conventional multifamily, strong fundamental operations, continued historic low cost of capital and REIT and private equity firms that are 'portfolio-pruning,'" says Katz.

While some of the industry's largest acquisitions to date have already been recorded in 2016, those numbers are not necessarily solely responsible for the record volume.

"Through the end of June, we saw a total transaction volume of \$5.3 billion," says Jaclyn Fitts, CBRE's national director of student housing. "This is only \$327 million below the total transaction for all of 2015." Approximately \$3.3 billion accounts for the two large trades.

"But the key is even if you remove those two portfolio acquisitions, we are still projecting that 2016 will see higher transaction volume than 2015."

Dorothy Jackman, managing director, national student housing group for Colliers International, is reporting that as of September 14, owners have closed 31 transactions that comprise 3,593 units and 7,112 beds at an average price of \$216,459 per unit and \$73,674 per bed. (This does not include the Vesper acquisition, which closed at the end of September.)

"The two significant portfolio dispositions will trigger two of the largest players in the space to re-evaluate their total portfolio following the acquisition and put in place a strategy that may include disposing of several assets," Jackman says. "We could see this come to play in 2017."

While the fourth quarter is typically when stabilized rent rolls enable a majority of a year's worth of properties to come to market, this year could turn out to be more front-loaded. "We will see a decline in volume and transactions for Q3 and Q4 of 2016 compared to Q1 and Q2 but will still remain in line with what the industry saw in



**AVI LEWITTES**  
Chief Investment Officer,  
The Scion Group

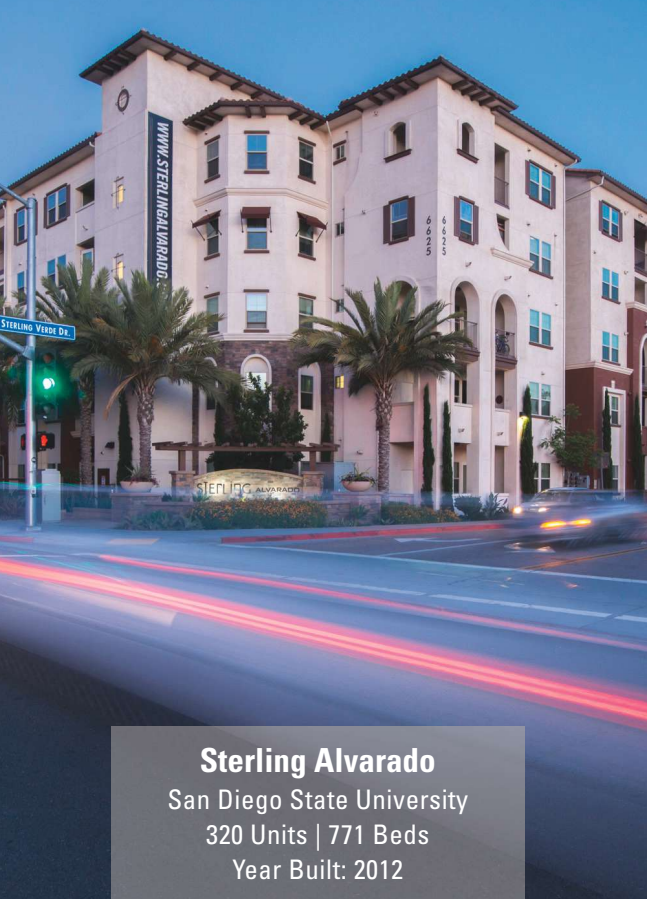


The Avenue, a 358-bed property serving Indiana University-Purdue University Indianapolis (IUPUI), was among The Preiss Company's most recently acquired communities. It was part of a three-property acquisition with a private equity joint venture completed in July. "If you were to ask what's my favorite kind of project, it would be one like this," says Donna Preiss. "Close to campus and purchased from an experienced student housing operator."



**DOROTHY JACKMAN**  
Managing Director,  
National Student  
Housing Group,  
Colliers International

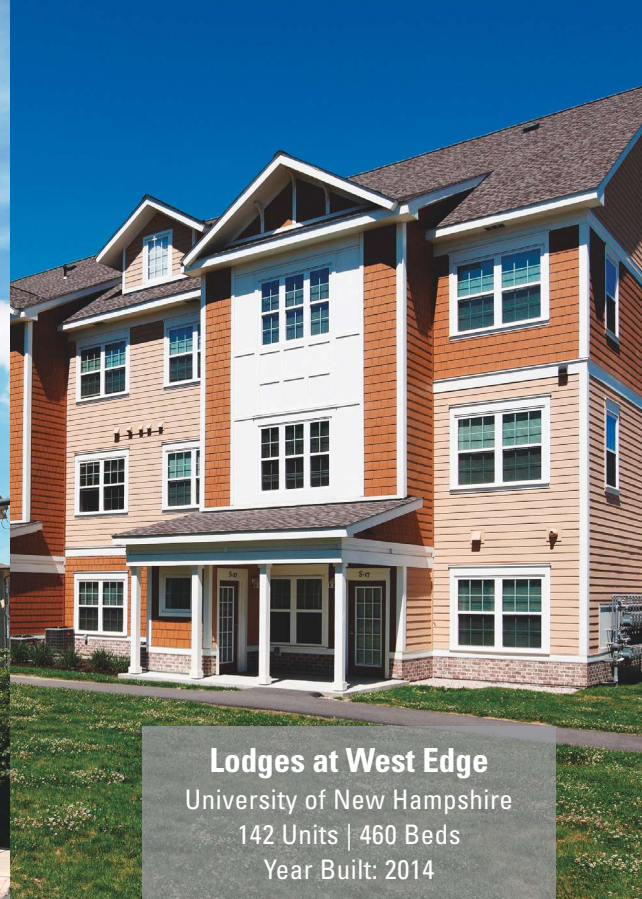




**Sterling Alvarado**  
 San Diego State University  
 320 Units | 771 Beds  
 Year Built: 2012



**Pavilion at North Grounds**  
 University of Virginia  
 300 Units | 528 Beds  
 Year Built: 2013/2015



**Lodges at West Edge**  
 University of New Hampshire  
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 Year Built: 2014



**The Foundation**  
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 Year Built: 2016



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# INVESTMENT SALES

2015,” Jackman says.

Campus Advantage CEO Michael Peter concurs, calling the slower fourth quarter “atypical” this year. “With our current properties under contract, we will close on \$175 million by mid-October,” Peter said in mid-September of Campus Advantage’s recent investment activity. “That number will likely exceed \$250 million by year end,

and we will dispose of \$335 million by year end. We’re on track for a relatively similar volume for our acquisitions as compared to previous years, however, because of the large number of portfolios on the market, this year has the potential to become our largest on record.” Campus Advantage, a private operator that targets core acquisitions, also selectively develops one to two projects per year and will soon be breaking ground in Pittsburgh for a 2018 delivery.

Today’s buyers are bringing a variety of capital sources and targeting a number of different strategies to keep returns high, and there are a few new investors active this year. Fitts says eight new entrants have transacted in student housing in the first half of the year, and she expects to see that trend continue.

“We have 14 assets that are projected to transact by the end of September — bringing our year-to-date total to 35 transactions, more than we transacted in all of 2015 — and the buyers on some of those assets



Acquired by Pierce Education Properties (PEP) in June, this 612-bed community in Athens, Georgia, represents an acquisition that meets the company’s investment criteria. The asset is 100 percent occupied for fall and is located in a highly stabilized university market.

will be new entrants. Institutional capital and foreign capital are the two new biggest sources, and there is always a large component of investor capital from private companies that either syndicate or invest on behalf of family offices,

and those groups continue to come into the space as well.”

The low cost of capital has been an incentive for many buyers, and cap rates are compressing. CBRE reports the average cap rate through the second quarter of 2016



**MICHAEL PETER**  
CEO,  
Campus Advantage

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AVAILABLE



216 BEDS

AVAILABLE



969 BEDS

AVAILABLE

MICHIGAN STATE UNIVERSITY

ILLINOIS STATE UNIVERSITY

UNIVERSITY OF NORTHERN IOWA



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CLOSED



391 BEDS

AVAILABLE



481 BEDS

CLOSED



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was 5.78 percent, which is an 11 basis point decrease from the 2015 average.

"I think we're going to continue to see transaction volume increase year over year," Fitts says. "Student housing continues to be recognized as a good investment alternative and because of that, equity is flocking into the space, which is creating demand and really attractive pricing for sellers who are looking to sell their assets."

Katz reports that institutional and private capital still prefer Tier 1 universities with consistent enrollment growth and pedestrian-to-campus assets, which historically outperform assets further to campus when comparing year-over-year rent growth, he says. "However, we have also seen buyers consider and acquire differentiated product and more value-add, renter-by-need properties seeking a risk-adjusted yield at Tier 1 as well as Tier 2 universities.



**PETER KATZ,**  
Executive Director,  
National Student Housing  
Investment Sales,  
Institutional Property  
Advisors

"Markets that have not had sizeable development of beds over the past five years or those that are experiencing sizeable year-over-year enrollment growth will continue to garner the greatest investor interest as we close out 2016 and 2017," he says.

## Matching Capital to Fit the Project

San Diego-based Pierce Education Properties (PEP) is among the more dynamic buyers in the sector, seeking core properties as well as a spectrum of value-add opportunities. "We cover the landscape," says PEP President and CEO Frederick

Pierce. "We want to have a diversified portfolio that's not too over-weighted with a concentration in a single asset or a single market." PEP's two large joint ventures help spread its ownership through asset

classes and markets — one with a state pension fund that enables the company to acquire core assets and the other with TIAA for value-add acquisitions. PEP's current \$540 million portfolio is active at 20 uni-

versities and contains about 12,500 beds. Acquisition criteria on the small side begins at \$15 million and tops out in the \$80 million range for purpose-built student apartment properties.



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- ▶▶ Mixed use developments offering services and shopping opportunities to residents and surrounding neighborhood
- ▶▶ Amenities that provide everything from relaxation, to fitness, to a hot cup of coffee, in a student-friendly environment

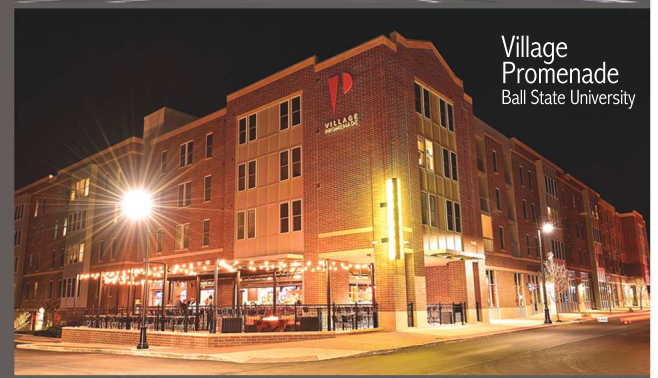
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# INVESTMENT SALES

Pierce says the company's portfolio and activity mirrors the overall student housing market. In 2013, PEP bought a little more than 2,900 beds in three properties for \$106 million; 2,800 beds in five properties for \$116 million in 2014; 3,100 beds in five properties for approximately \$105 million in 2015; and in the first six months of 2016, purchased six properties comprising 4,800 beds for approximately \$200 million.

"Our largest volume ever in the past was in 2007, when we acquired \$130 million," Pierce says. "So our volume was the largest it's ever been in the first six months of 2016, and we're continuing to proceed forward." Pierce says at least one more closing is scheduled before the end of the year, possibly more.

"It's been a big year, and it's been driven by a large volume of properties available for purchase and by a tremendous amount of equity capital available to finance those acquisitions. Looking forward with our committed capital, that's for value-add and core, and using the

leverage that we're allowed to use, we've got committed and available capital to deploy \$400 million. Over the next two years, I think we could eclipse \$1 billion in assets."

Across the country, Raleigh, North Carolina-based The Preiss Company (TPCO), which develops, acquires and manages, is experiencing growth by acquiring both value-add and core investments. So far this year, TPCO, which accesses

different sources of equity to match opportunities with compatible capital, has completed 11 acquisitions totaling \$461 million in the first two quarters, four dispositions totaling \$261 million, and the company is expecting to close on another \$140 million sale in October. Fifteen new third-party management assignments were added this year.

"2016 has been our most active year," says TPCO Founder and

CEO Donna Preiss. "To give you a sense of the health of the industry, in our business you do the project and hope to hit different intervals of success called the promote, and we hit the maximum promote on each of those sales. This is our third straight year of the best fundamentals ever."

The TPCO portfolio is at 98 percent occupancy with about a 3 percent rent gain. To illustrate what the



**FREDERICK PIERCE**  
President and CEO,  
Pierce Education  
Properties



**JACLYN FITTS**  
National Director of  
Student Housing,  
CBRE



**DONNA PREISS**  
Founder and CEO,  
The Preiss Company

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**SOLD**

**SOLD**  
**University View**  
University of Maryland  
1,573 Beds

**SOLD**  
**Burnham 310**  
University of Illinois - Champaign  
437 Beds

**SOLD**  
**Circle University City**  
University of NC - Charlotte  
546 Beds

**SOLD**  
**Campus Lodge Tampa**  
University of South Florida  
1,067 Beds

**SOLD**  
**Campus Circle**  
Florida State University  
679 Beds

**SOLD**  
**The Avenue**  
IUPUI  
358 Beds

**SOLD**  
**Gateway at Knoxville**  
University of Tennessee  
720 Beds

**SOLD**  
**Lighthouse**  
University of NC - Wilmington  
348 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

**UNDER CONTRACT**  
**BLVD 63**  
San Diego State University  
1,379 Beds

**UNDER CONTRACT**  
**Sterling Summit**  
University of Nevada - Reno  
709 Beds

**AVAILABLE**  
**Campus Vue**  
University of Houston  
465 Beds

**AVAILABLE**  
**University Center Chicago**  
DePaul/Roosevelt/Columbia  
1,729 Beds

**AVAILABLE**  
**Regents on University**  
Arizona State University  
640 Beds

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

**AVAILABLE**  
**College Club**  
Florida A&M University  
544 Beds

**AVAILABLE**  
**Campus Club | Gateway at Glades**  
University of Florida  
924 Beds | 432 Beds

**AVAILABLE**  
**Aqua Club | Aqua Palms**  
Florida State University  
756 Beds | 576 Beds

### INVESTMENT SALES

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## INVESTMENT SALES

*It's been a big year, driven by a large volume of properties available for purchase and by a tremendous amount of equity capital available.*

— Frederick Pierce, President and CEO,  
Pierce Education Properties

company looks for, Preiss points toward some 2016 success stories from the value-add arena. Collegiate Commons at North Carolina A&T State University in Greensboro, North Carolina, was acquired earlier this year because of its proximity to campus and what Preiss calls its “good bones.” The community had never been over 50 percent occupancy, but with a clubhouse renovation and some unit upgrades, it went up to 100 percent occupancy with substantial rent gains, Preiss says.

Similarly, in TPCO's home market of Raleigh, Campus Edge was acquired, upgraded and bumped to the complex's highest occupancy ever of 99 percent. “Another example of properties we've had good luck with this year are properties that we've owned for a period of time with one equity partner, whose funds have matured, they've sold, made nice profits, and then we re-entered on the purchase side with a new equity partner,” Preiss says. “We did that this year with three acquisitions.”

### Why it Works

Why are transactions going so strong this year? According to Preiss, there are three fundamentals that are favorably balanced: “The supply, the demand, and the third that isn't discussed very often, the maturation of the asset class.”

Preiss says that there are an estimated 258,000 to 380,000 students expected to begin college in each of the next seven years, and adds that the United States remains the destination of choice to seek a higher education. Currently there are about 1 million international students in the United States, according to research by TPCO. That number grew by 100,000 students last year. The 10 percent increase was the largest in history. On the supply side, new construction has

dropped off. Preiss cites a total of 48,000 new deliveries from 2015, versus 60,000 in 2013 and 63,000 in 2014, with even fewer expected in 2017.

“Even at 48,000 new beds, compared to the 380,000 new students, you can see that we still have a lot of runway left.” As for the maturation of the asset class, Preiss says that over the years she's seen, for example, demand in the Raleigh and Austin markets for conventional multifamily edging out those communities that are a hybrid of purpose-built and conventional, leaving many students seeking a solely purpose-built living environment. In these two markets, Preiss estimates about 25 percent of students live on campus and another 25 percent in purpose-built student housing, while the other 50 percent lives in small apartments, houses or duplexes.

“There's not been any significant growth in student body,” Preiss says. “And yet we have been able to handle new deliveries in both markets and have seen probably 5 to 6 percent rent growth. That's because of the fact that a lot of what was maybe 10 to 30 percent student housing inside of an apartment complex now is strictly conventional. Those owners do not want to deal with students every single year. Student housing is a bit more work. It takes a more sophisticated staff. It's a little more expensive. So they are changing their demographic. I've seen that happen in those two major markets, where again, enrollment is flat. You have new deliveries, and still we have record occupancies and record rent growth. It's creating a demand for purpose-built because we've actually lost some units. Whenever you look at the numbers, there's always been this big shadow market of student housing. As the asset class matures, there's less of that.” **SHB**



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Contact our acquisitions team at 619-297-0400 or email [mmaruccia@PierceEducationProperties.com](mailto:mmaruccia@PierceEducationProperties.com) to discuss potential opportunities.



# VESPER ACQUIRES EIGHT-PROPERTY PORTFOLIO

New York City-based Vesper Holdings has acquired an eight property student housing portfolio totaling 4,925 beds. The transaction closed at the end of September with partner Prospect Capital. The purchase price of the portfolio was \$72 million.

The properties were sold by Heitman and were managed by Campus Advantage. Acquired properties include Islander Village, a 312-bed community, and Campus Quarters, a 336-bed community, both located near Texas A&M University in Corpus Christi, Texas; The District on Luther, a 1,098-bed community located near the Texas A&M public research university in College Station, Texas; Legacy, a 368-bed community located near Georgia Southern University in Statesboro, Georgia; West 22, an 850-bed community located near Kennesaw State University in Kennesaw, Georgia; Crimson, a 700-

bed community located near the University of Alabama in Tuscaloosa, Alabama; University Crossing, a 700-bed community located near Kansas State University in Manhattan, Kansas; and Hawk's Ridge, a 561-bed community located near the University of Iowa in Iowa City.

"This was a transformative acquisition for us in the size and scale of it," says Isaac Sitt, co-founder and principal of Vesper Holdings. "What we're the leaders at in the industry today is value-add. Our wheelhouse is first generation, purpose-built student housing. The properties in the portfolio were built — on average — in 2006, so when they



Sitt

were built, they were the best and the brightest. There is not a lot of deferred maintenance, but there is a lot of deferred opportunity."

Vesper will invest \$11 million into capital improvements across the portfolio. Improvements will include unit renovations; extensive enhancements to the properties' exteriors; updated fitness centers, club houses and pool areas; and substantial technology upgrades throughout the communities.

"The majority of the properties are value-add, and we will be implementing a similar plan to what we did in The Ivy in South Florida," says Sitt. "There will be some upgrades that the students will get the benefit of for this fall [2017]. Generally speaking, to really execute, we're looking at fall of 2018. That's when I really see the big pop for this deal."

The eight newly-acquired properties will be managed by Cam-

pus Life & Style, Vesper's wholly-owned property management subsidiary. CBRE's Jaelyn Fitts negotiated the transaction on behalf of the seller.

"This is the ninth largest acquisition in student housing in the United States," says Sitt. "It's the fourth largest done by a private owner."

Several of the properties were financed with debt provided by KeyBank, while most of the properties were financed via agency debt from Freddie Mac, according to Sitt. Vesper had worked with the seller for a number of months on the acquisition, and Sitt says Vesper will take down other large transactions in the future.

"This deal was a labor of love, and we're very excited about it," continues Sitt. "It's really the beginning for us; we're now over 15,000 beds, and we're looking to continue to grow." — Katie Sloan



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- Class A, B and C level assets
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University of Michigan



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