

Student Housing Quarterly Report—Q3

Table of Contents

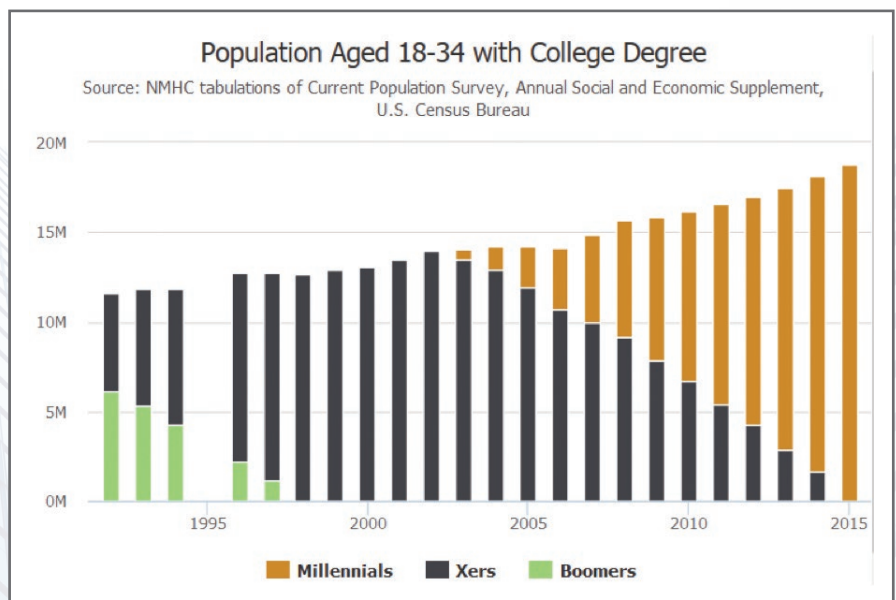
1. Key Findings
2. Quarterly Transactions
3. REITs & Student Housing
4. Market Overview
5. Outlook

1. Key Findings

The Millennial generation's magnitude eclipsed that of the Baby Boomer generation. More Millennials, which include those born roughly between 1980 and the mid-2000s, are attending college and earning postsecondary degrees than any other generation of young adults. According to the National Center for Education Statistics, in the fall of 2015, 20.4 million young adults were enrolled in U.S. colleges.

That figure is expected to grow by 2.2 million students, or 11% in the next eight years, reaching 22.6 million in fall 2023. More college students means more demand for housing options, both on and off campus, at many colleges and universities around the country.

In response, the private student housing market is rapidly growing and adapting to meet the volume of new college students and their demands for tech-saturated, highly amenitized housing.



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1. Key Findings *(continued)*

Investors are buying more [student housing](#) properties than ever before and this year is likely to be even greater given the pace of transactions so far in 2016. From the start of 2016 through mid-May, investors traded more than \$3 billion in student housing properties, up from \$2.1 billion over the same period in 2015, according to data from Real Capital Analytics (RCA). In comparison, in 2014, investors bought a total of \$3.2 billion in student housing properties over the course of the whole year.

More investors see student housing as a core type of commercial real estate rather than a niche market. And a variety of financing sources are eager to provide permanent loans, equity and mezzanine financing, according to Doug Opalka, senior managing director for Holliday Fenoglio Fowler.

REITs have been the biggest sellers so far in 2016, with \$1.9 billion in dispositions versus just \$143.5 million in acquisitions. The vast majority of that activity is from the sale of Campus Crest. REITs were also net sellers last year, with \$682.7 million in sales against \$455.3 million in acquisitions. Institutions are attracted to student housing because the properties are relatively stable investments that provide consistent yields. Student housing has also proven to be highly resistant to economic headwinds. As institutions commit more cash to student housing, they can buy larger properties.

2. Quarterly Transactions

The industry has seen a lot of activity in buying and selling during the first half of the year. In addition to smaller portfolios and one-off transactions, the sector saw two of its largest M&A transactions to date close during the first half of this year.

- Harrison Street Real Estate Capital closed on the \$1.9 billion [acquisition](#) of Campus Crest Communities, adding more than 30,000 beds to its portfolio.
- The Scion Group, GIC and CPPIB closed on their \$1.4 billion [acquisition](#) of the assets of University House Communities from InvenTrust Properties, adding more than 10,000 beds to Scion's portfolio.
- The Preiss Company, Vesper Holdings and Pierce Education Properties have been [acquiring](#) a number of properties in 2016.
- Vesper Holdings continued to grow its presence in the industry, closing on The Foundry, a six-story student housing property in Ames, Iowa, near Iowa State University. Vesper has acquired five student housing properties over the past year.
- Pierce Education Properties acquired more than 1,800 beds thus far in 2016. The company closed on the acquisition of the 990-bed The Pavilion on 62nd near the University of Florida in Gainesville. In Greenville, North Carolina, Pierce acquired The Landing, an 888-bed property near East Carolina University for \$42 million.
- Northern Kentucky University [selected](#) Fairmount Properties and American Campus Communities to design and build an \$83-million mixed-use development at the entrance to its Highland Heights campus as well as more on-campus student housing. The student housing part of the development specifies construction of a 500-bed residence hall.
- [Blackstone](#) appointed JLL to sell the 7,921-bed Victoria Hall student accommodation portfolio, located in 11 U.K. cities, for \$598.8 million.
- A pair of student housing development projects in Texas and Louisiana [secured](#) \$86 million in construction financing. CBRE brokered the deal on behalf of the borrower Park7 Group, but did not disclose the lender. The properties are slated to be completed in the summer of 2017.
- Corvias [entered](#) into a 40-year, public-private partnership with Wayne State University to execute a \$300-million housing master plan at the university's campus in Detroit.
- EdR [completed](#) the \$45-million renovation and modernization of Bowles Hall at the University of California, Berkeley.
- A JV [between](#) the University of Indianapolis and Strategic Capital Partners opened Greyhound Village, a 486-bed, on-campus student housing community.

3. Student Housing REITs

American Campus Communities (ACC and American Campus)



ACC is a university housing development company headquartered in Bee Cave, Texas and is the nation's largest developer and manager of private student housing in the U.S. In 2004, American Campus became the first student housing REIT to become publicly traded. Currently, American Campus manages 145 properties with over 92,000 beds, many in partnership with universities on campus property. American Campus is part of a growing trend of independently operated housing serving university students; in particular, cash-strapped public universities have found it financially beneficial to allow outside companies to assume the debt generated by housing projects, freeing up capital for the university to spend on other facilities.

Education Realty Trust (EdR)



EdR is a self-managed and self-advised REIT. The trust is engaged in developing, acquiring, owning and managing collegiate housing communities located near university campuses. The REIT operates through three segments: collegiate housing leasing, development consulting services and management services. EdR owns approximately 60 collegiate housing communities located in over 20 states containing approximately 30,400 beds in over 11,680 apartment units in over 40 university campuses. The REIT provides third-party management services for approximately 20 collegiate housing communities located in over 10 states containing approximately 11,540 beds in over 4,090 apartment units in over 20 university campuses.

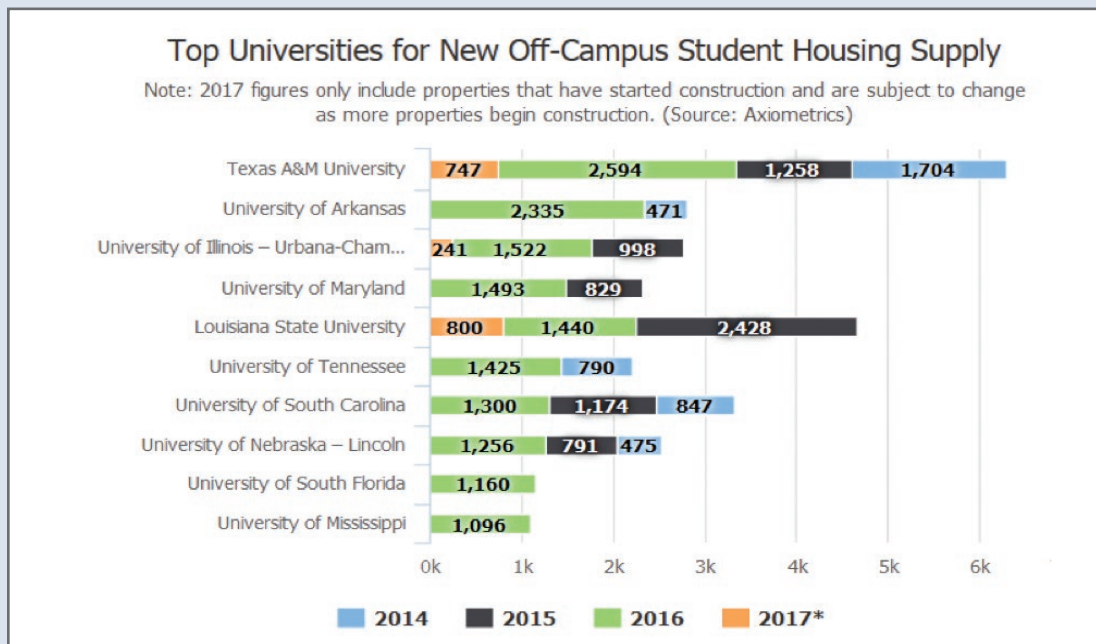
4. Market Overview

Student Housing & Core Locations

Nearly all the new student housing planned for [2016](#) will be located very close to campuses, as the performance of recent projects has shown that students prefer communities within close proximity to campus.

It is expected that roughly 75% of projects will be urban infill, located an average of 0.1 miles from campus.

While many developers' focus has shifted to finding those key infill locations adjacent to campuses, some are getting more involved in private on-campus housing opportunities.



Production & Construction Challenges

Developers are [planning](#) to open 45,000 new beds at privately-owned student housing properties in time for the 2016-2017 academic year. That's the fewest number of new beds to open in any year since 2012, when the most recent development boom began. Developers created more than 60,000 new beds in both 2013 and 2014, and they created 48,000 in 2015. While production has come down off historic highs, student housing developers are still delivering a decent volume of beds compared to earlier RE cycles. Shifting demographics and growing student enrollments are creating strong demand for student housing, allowing the market to absorb most of the new beds being brought to market. Developers are planning to open slightly less than 45,000 new beds in 2017 and slightly less than 40,000 beds in 2018.

As of [June](#), student housing properties were 83.4% pre-leased, on average. That's even better than these properties were doing last year, with the average pre-leasing rate up 15 basis points. Effective rents grew at a rate of 2.3% a year through June. That's up from 2% over the 2015-2016 leasing season. In just four years, developers have created almost as many new beds as

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4. Market Overview *(continued)*

they built over more than a quarter century. So far, demand for student housing is absorbing all these new units and then some. The average effective rent at privately-owned student housing properties was \$590 in May, up 1.9% from the year before, according to Axiometrics. Property managers report student housing beds for this fall were pre-leased faster this spring than the beds rented last year.

The land around large universities is usually crowded with existing buildings. Infill development often requires developers to squeeze onto tiny sites. They often have to build mid-rise or high-rise buildings to a development density that justifies the high cost of land. Developers also may have to share their development sites. Creativity is required in sourcing land sites as infill land becomes more difficult to obtain and get entitled. Moreover, developers may have a hard time finding the workers they need to complete their properties on time, as the economy steadily improves, construction workers of all kinds are in very high demand.

Several factors have led to the current boom in new student housing designs, such as making better use of campus space. With institutions that are essentially land-locked, the potential of acquiring more land is out of the question. Instead of attempting to build outward, the goal is to build upward. More living space means more students who increase the revenue generated by the institution. Students are also more discriminating in terms of their surroundings, wanting [easy access to amenities](#) that once meant a walk into town or at least across the campus.

5. Outlook—Trends to Watch

Off Campus Opportunities

- As more Millennials reach college age, fueling enrollment increases at colleges and universities across the country, meeting the subsequent student housing [demand](#) is increasingly requiring the participation of private players. Some schools lack enough on-campus dorm capacity to accommodate rising student populations. Others have limited financing available to build new on-campus supply. And for others, it's an allocation issue. And while some students still tend to live on campus their first and maybe second years, the trend is for them to move off campus as they become upper classmen and -women. And it's often much about having more housing choice off campus, as many on-campus housing facilities lack the technology and amenities that today's students want.
- One trend to watch in the student housing construction boom is [micro-housing](#). Instead of the older two-bed dorm room approach, students are provided with miniature spaces set up for sleeping, study, and preparing simple meals. Thanks to efficient use of the square footage, it's possible to create private space for each student. Freeing up more square footage ensures that the common areas can be larger and more user-friendly.
- Mixed-use projects are also becoming more prevalent than in the past, with retail on the main level and student housing above.