Researching, Developing & Managing "Purpose Built" Off-Campus Student Housing

Derek Lobo

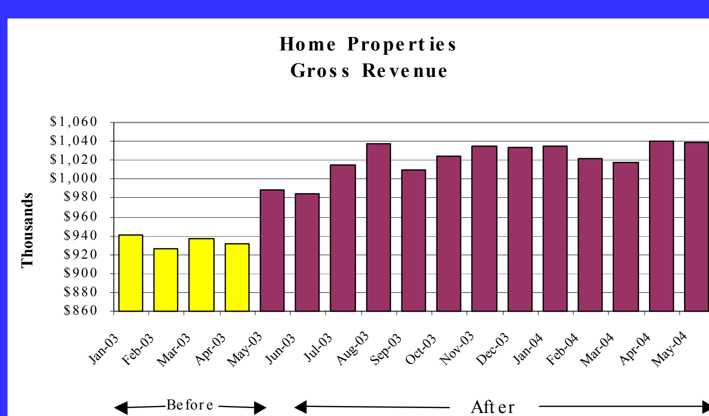
DALA Group of Companies

Outline

- Study of off-campus student housing in Canada and the USA.
- Demographics, depth of market analysis, apartment design and construction, building and unit amenities, by-the-bed VS by-the-unit leasing, parking requirements, sales & marketing strategies and management challenges.
- All stakeholders can benefit from large "purpose built" student housing developments.
- Provide a framework for Universities & Colleges, Municipalities and Developers to work together.

DALA History

- Performance based consulting firm, Canada and USA.
- We get called into tough buildings to lease apartments, raise rents and increase cash flow. All fees are based on performance.
- Recognized that large and institutional apartment owners see students as renter of last resort.



How We Got Here Today

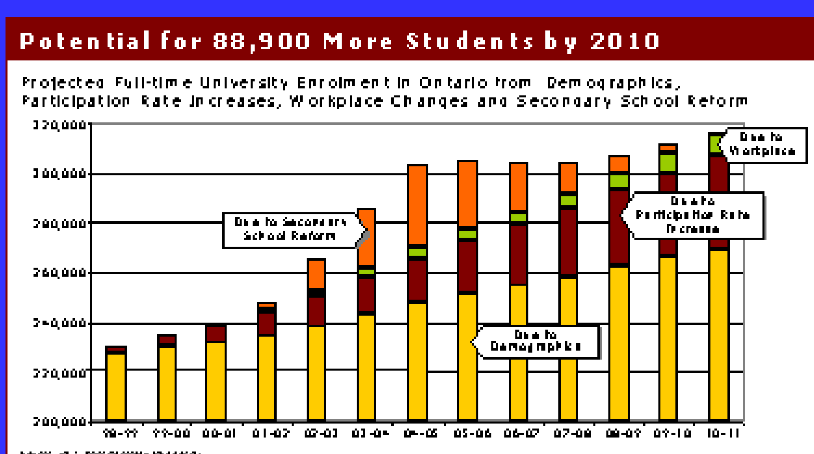
- Recognized that Students are a very big part of the rental market.
- Recognized there was a lack of respect between customer and supplier.
- Attended last years conference OACUHO and ACUHO-I. Spoke at 2005 OAUCHO conference.
- Little written or published on student housing in Canada. Looked to the USA.

The State Of Off Campus Housing

- **Calgary, Windsor, St Catherine's, Hamilton, Waterloo, Guelph, London, Toronto, Peterborough, Kingston, Ottawa, Montreal, Halifax, St. John's, East Lansing MI, Kalamazoo MI, Gainesville FL. Denton TX**
- **The Ghetto, Issues with city**
- **University enrolment/reputation is tied to housing**
- **Low Value Proposition for students (little choice)**
- **Dysfunctional Market (rents did not seem match value)**

What is Student Housing?

Apartments with over 80% students usually less than 2 miles from university or on a sanctioned university bus line.



demographics

- 1 in every 2 young people (20-24) attending post-secondary school
- More students working part-time and taking longer to graduate

youthography

DALA
Derek A. Lobo & Associates
Group of Companies

Changing workplace requirements

Average 6.5 enrolment per bed, ranging from low of 2.9 (Guelph) to a high of 19.5 (Ryerson)

Historical Perspective

University built on campus

Private sector built off campus (very limited in Canada)

In Canada small landlords converted houses and built small buildings (Student Ghetto)

Ownership Structures (USA)

.

Traditional: University-Owned
University owns land and building
Tax-exempt financing

.

Hybrid: Foundation-Owned
University owns land
Foundation or other non-profit owns building
Tax-exempt financing

.

Privatized: Developer Owned
University owns land
Developer owns building
Taxable financing

.

Off-Campus
Developer owns land
Developer owns building
Taxable financing

Projecting Into the Future

.

Renovation vs. New Construction

Conversion of existing halls (dorms) to preferable unit configurations is largely cost prohibitive.

Trend will be to renovate existing halls and build new only for expansion.

Universities will not be able to keep up with demand for on-campus housing. This will negatively impact on all stakeholders.

Quality vs. Affordability

As an auxiliary service , student housing must be self-supporting

Rents are capped by market and institutional constraints on cost to attend

Trend will be to push for higher quality for on-campus projects

Increasing acceptance of 40-to 50 year buildings

Projecting Into the Future

.

Near-Term Trends

.

Academic Communities
Living-learning communities
Technology
Connectivity: voice, video and data for each bed
Wireless

.

Privacy and Self-sufficiency
Bathrooms
Bedrooms
Kitchens

.

Amenities
Convenience Retail
One- card: ID,security,debit,vending
Fitness facilities

Demand Generators

Enrollment Growth

Overall population growth can be misleading (e.g. senior population growing)

High correlation with population growth ages 15-19

Actual vs. percentage growth

Destination Universities (Queens) VS Non-Destination Universities (York)

Destination Universities enrolling students on nationwide and international basis need different measurement criteria

CHARACTERSITICS OF SUCCESFUL STUDENT HOUSING DEVELOPMENTS

Individual Leases
Well Located
On campus or within walking distance
On university bus line
Near public transportation
Modern Amenity Package
Students expect modern amenities

Addition of amenities can increase rent potential creating a return on the Amenities which exceeds the return to the rest of the property

Amenity premiums for student housing exceed premiums for the same Amenities in conventional multi-family housing

SIGNIFICANT FACTORS IN HOUSING CHOICES

Amenity Package Other Considerations

Washer/Dryer
Large Bedrooms /Living Area
Individual High Speed Internet Connection
Patio / Balcony
Individual Phone Lines
Furnished Units
Walk-in Closets
Swimming Pool
Hot Tub / Jacuzzi
Soundproof Unit
Fitness Center
Ceiling Fans
Fully Equipped Kitchens
Utilities Included in Rent

OTHER INVESTMENT CONSIDERATIONS

.

Depth of Demand

Analyzing investment decisions on overall demand can be misleading

Typically, in the USA top 10% of students based on demographic profiles can afford new, modern housing.

Financial aid may bridge the gap in some cases

Supply Factors:

Analyzing the competition

Gauging the development pipeline

Identifying product types and niche markets

Calculating capture and absorption rates

PURPOSE BUILT OFF-CAMPUS STUDENT APARTMENTS

- SHOULD YOU BUILD?
- WHAT & WHERE SHOULD YOU BUILD?
- HOW MUCH TO CHARGE?
- HOW MANY UNITS CAN YOU BUILD?
- FINACING NEW CONSTRUCTION
- ZONING
- CONSTRUCTION ISSUES

Product Types:

High Rise

Mid Rise Concrete (6-7 stories)

High Density, Stick-Built (40-50 units/acre)
4 stories over 1 level of parking (photo)

Garden Style Apartments (15-20 units/acre)

A+ Class: Construction -- Concrete

A+ Class: Construction -- High Density Stick-Built

A+ Class: Construction -- Garden Apartments

Building Theme

- Slow Down The Pace
- Tree Lined Street
- Single Family Home Details

Naming The Apartment Community

- Anchoring
- Single Name Is Better
- Logo

Features & Amenities

"The Struggle Between Magnificence & Utility"

- Front Door
- Details
- Business Center
- Social Room

Upgrades & Packaging

- It Is Not Unique If Everyone Has It!
- Computer Desks
- Upgrade Premium Apartments
- Location

Floor Plans

- Compare To Competition
- One Floor Plan Per Page
- Unbroken Walls
- Trim & Finish
- Entry To Apartment
- Living Room
- Dinning Room
- Kitchen
- Bathrooms
- Bedrooms

Technology

- Alarm Systems
- Movie Theater
- Music Distribution Systems
- Fast Internet Connection
- Future Services

Parking

- **Keep Cars Out Of View**
- **1 parking spot per unit**
- **Asphalt VS Interlocking Brick**
- **Keep The Front Of The Building Green**

Renting By the Bed VS By The Unit

- More Revenue around 10%
- More Turnovers
- By the Bed is an Incubator for next year By the Unit

Furniture

- Parents Empty out their basements
- Move in Move Out in High-rise is a challenge.
- Offer Options, Fully furnished, Partially Furnished, Not furnished.
- Fast Payback, good ROI

Canadian Business Models for Building Owning, Managing Student Housing:

Private Landlord, build & own

Merchant Builder (Development Fee, Construction Fee) joint development with university

Risk Factors and Risk Mitigation:

Zoning Risk

Recession

Over-building (competing against the university)

Construction Costs

Lease-Up Risk

Market Intelligence Risk

Financing Risk

Political Risk

FINANCING AND INVESTMENT

Equity
Construction
Take Out Financing

Government Programs:
Federal Programs (CMHC)
Provincial Programs (Rent Controls)
Municipal Programs (incentives and flexibility)

Methodology for Site Selection:

Large & Small land owners

Government land (Federal, Provincial, Municipal)

Educational Institutions

Failing Condo Sites

In-fill Apartment sites & Intensification

Brown-field sites

EXIT STRATEGIES (Educating the Canada Buyer of Student Housing)

- Private Investors (Price under $25 million)
- REITS
- Pension Funds
- Insurance Companies
- Universities

MANAGEMENT AND OPERATIONS

The importance of good management

Self-management Vs. third party management:

The Management Team

The Management Structure

What to look for in a Property Manager

THE DEVELOPMENT TEAM

Universities and Colleges
Municipalities
Attorneys
Planners
Market Researchers
Engineers
Environmental Specialists
Architects
Landscape Architects
Financiers
Contractors
Property Manager

Market And Transaction Data

- Real estate market data is far from perfect.
- CMHC data on vacancy and rent growth cover all rental housing and is not specific to investment grade.
- Broker surveys and vendor databases often rely on limited sample size, and are not consistent across the market.

The Hidden Value Market Survey

- Select Competitors
- Rank Buildings
- Compare Ranking To Rent Charged
- Determine Neighborhood Rent
- Determine Optimum Rent
- Test Higher Rents
- Benchmarks

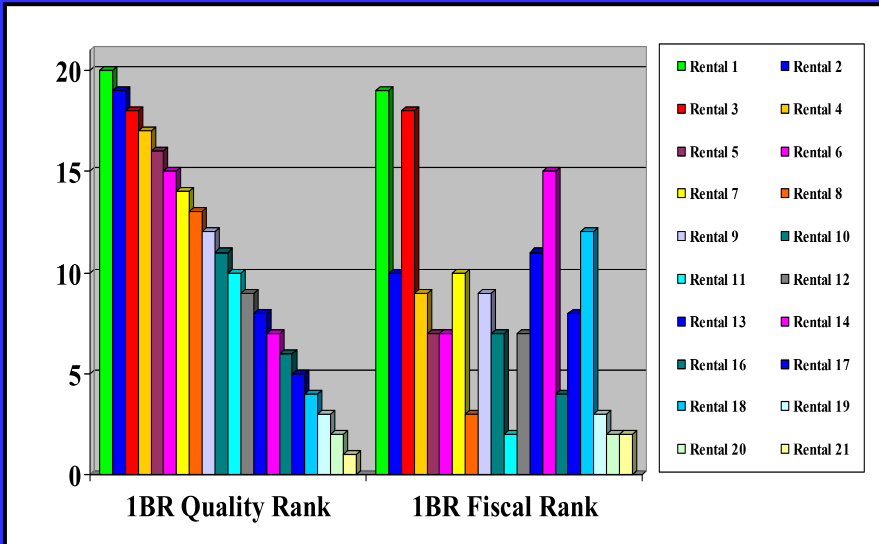
Ranking Buildings

	Apartment 1	Apartment 2	Apartment 3	Apartment 4	Apartment 5	Apartment 6
1. Superintendents	21	22	18	17	19	15
2. Curb Appeal	21	22	20	19	6	5
3. Lobby	21	22	20	19	15	16
4. Common Areas	21	22	19	20	14	14
5. Apartment Appeal	22	20	21	19	17	16
6. Location	14	18	17	16	3	20
7. Security	21	22	20	19	17	6
8. Parking	21	18	19	20	22	12
9. Amenities	17	8	6	5	12	21
TOTAL	179	174	160	154	135	124
RANKING	1	2	3	4	5	6

Apartment Survey Chart:

Building	Quality Rank	1BR Fiscal Rank	1BR $	Parking $	Utilities Incl.
Apartment 1	1	6	605	Incl	Yes
Apartment 2	2	2	650	$20	No
Apartment 3	3	3	639	Incl	No
Apartment 4	4	5	579	Incl	Yes
Apartment 5	5	4	625	Inc.	Yes
Apartment 6	6	1	719	Incl	Yes

Quality Ranking Chart

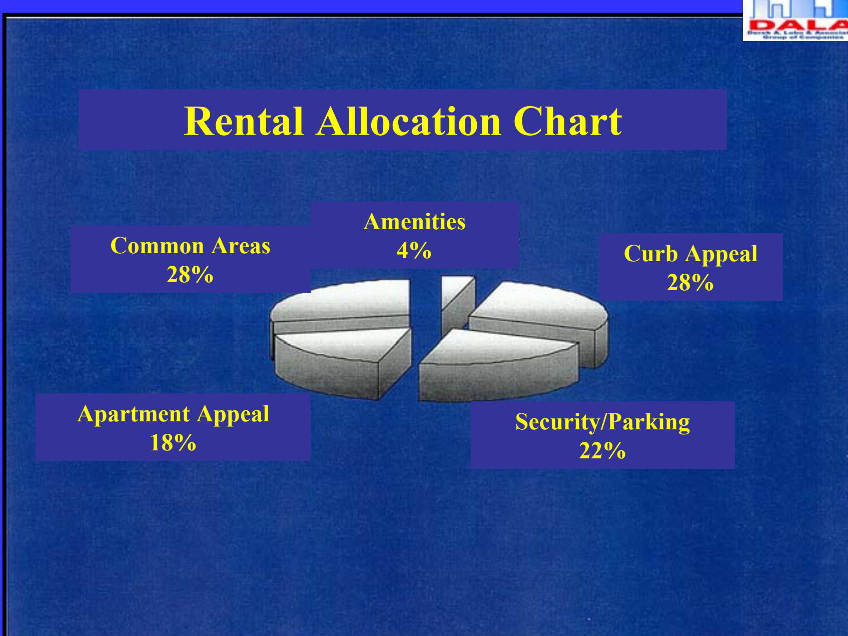


Rental Analysis

ADDRESS	SQ.FT.	RENT	SQ. FT.	AGE	LOC.	DRYER	AMEN	SIZE	AMEN	UTIL.	SQ.FT.	RENT
Rental 1	800	$ 1,500	$ 1.85	$ 160	$ -	$ 60	$ 75	$ (50)	$ 100	$ (88)	$ 2.20	$ 1,757
Rental 2	1050	$ 1,700	$ 1.62	$ 210	$ -	$ 60	$ 50	$ (200)	$ 100	$ (116)	$ 1.72	$ 1,804
Rental 3	805	$ 1,800	$ 2.24	$ 161	$ -	$ 60	$ 50	$ (50)	$ 50	$ (89)	$ 2.46	$ 1,982
Rental 4	605	$ 1,495	$ 2.47	$ 121	$ 50	$ 60	$ 50	$ -	$ 100	$ (67)	$ 2.99	$ 1,809
Rental 5	655	$ 1,300	$ 1.98	$ 131	$ 50	$ 60	$ 50	$ -	$ 100	$ (72)	$ 2.47	$ 1,819
Rental 6	600	$ 1,200	$ 2.00	$ 120	$ 50	$ 60	$ 50	$ -	$ 100	$ (66)	$ 2.52	$ 1,514
Condo 1	750	$ 2,200	$ 2.93	$ 75	$ (25)	$ 60	$ 50	$ (25)	$ 50	$ (83)	$ 3.07	$ 2,302
Condo 2	600	$ 1,995	$ 3.33	$ 60	$ (50)	$ 30	$ 25	$ -	$ 50	$ (66)	$ 3.41	$ 2,044
Condo 3	750	$ 1,630	$ 2.17	$ 75	$ (50)	$ 60	$ 25	$ (25)	$ 50	$ (83)	$ 2.24	$ 1,662
Condo 4	730	$ 1,845	$ 2.53	$ 73	$ (50)	$ 20	$ 50	$ (25)	$ 50	$ (80)	$ 2.58	$ 1,883
Condo 5	837	$ 2,050	$ 2.19	$ 94	$ -	$ 20	$ 25	$ (75)	$ 50	$ (103)	$ 2.20	$ 2,061
Condo 6	750	$ 2,300	$ 3.07	$ 75	$ -	$ 20	$ 25	$ (25)	$ 50	$ (83)	$ 3.15	$ 2,362
Condo 7	852	$ 1,595	$ 2.45	$ 65	$ 50	$ 20	$ 25	$ -	$ 50	$ (72)	$ 2.66	$ 1,733
Rental 7	850	$ 1,550	$ 1.82	$ 170	$ 50	$ 60	$ 75	$ (50)	$ 100	$ (94)	$ 2.19	$ 1,661
Condo 8	600	$ 1,300	$ 2.50	$ 60	$ -	$ -	$ 25	$ -	$ 50	$ (66)	$ 2.62	$ 1,589
Rental 8	650	$ 1,350	$ 2.09	$ 130	$ (50)	$ 60	$ 50	$ -	$ 100	$ (72)	$ 2.43	$ 1,578
Rental 9	700	$ 1,200	$ 1.71	$ 140	$ 50	$ 60	$ 75	$ (25)	$ 100	$ (77)	$ 2.18	$ 1,523
Average	734	$ 1,650	$ 2.29	$ 113	$ 4	$ 45	$ 46	$ (32)	$ 74	$ (81)		
CLIENT	600	$ 1,437	$ 2.40	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2.40	$ 1,437
CLIENT	655	$ 1,581	$ 2.41	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2.41	$ 1,581
CONDO O	721	$ 1,889	$ 2.64	$ 72	$ (16)	$ 29	$ 31	$ (22)	$ 50	$ (80)	$ 2.74	$ 1,954
RENTAL (	746	$ 1,458	$ 1.98	$ 149	$ 22	$ 60.00	$ 58.00	$ (42)	$ 94	$ (82)	$ 2.35	$ 1,716

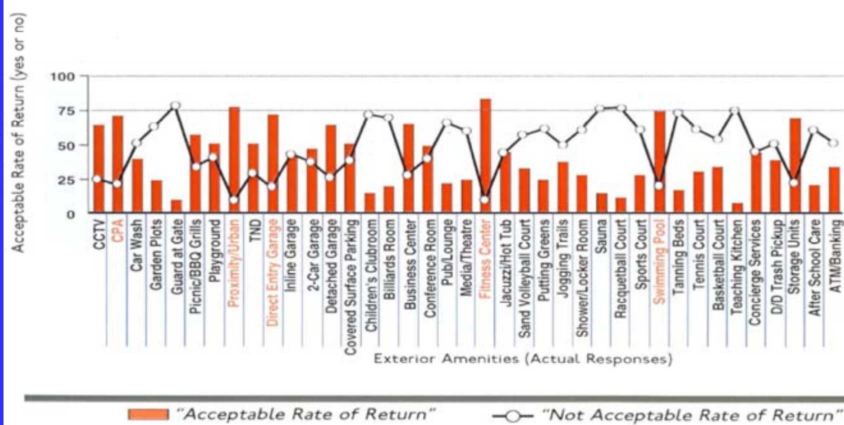
Revenue and Yield Management

- Hotels, Airlines, Cruise Ships
- Supply Demand Pricing
- Premiums



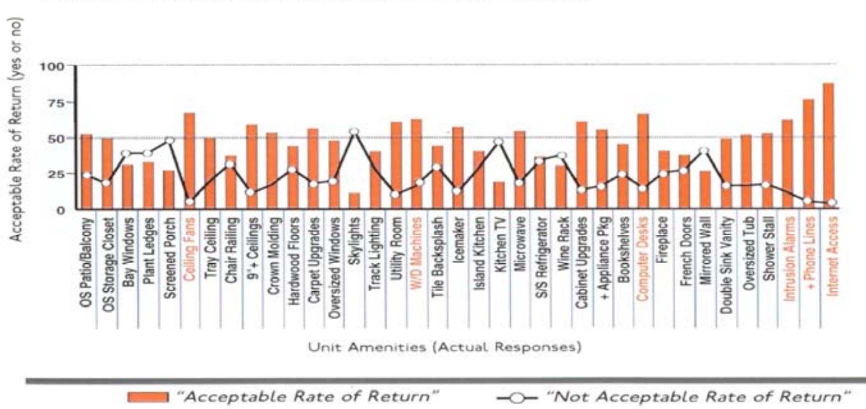
Unit Amenities Rate of Return

Which of the following amenities provide an acceptable rate of return and which ones do not provide an acceptable rate of return?

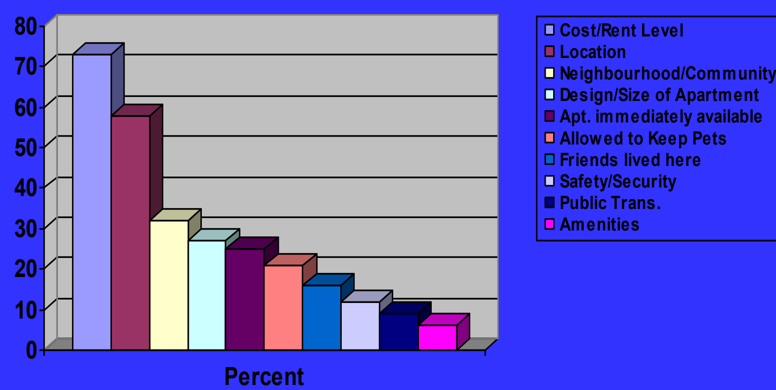


Unit Amenities Rate of Return

Which of the following amenities provide an acceptable rate of return and which ones do not provide an acceptable rate of return?



MOST IMPORTANT REASONS FOR CHOOSING AN APARTMENT HOME



Testing Optimum Rent Leve & Absorption Rates

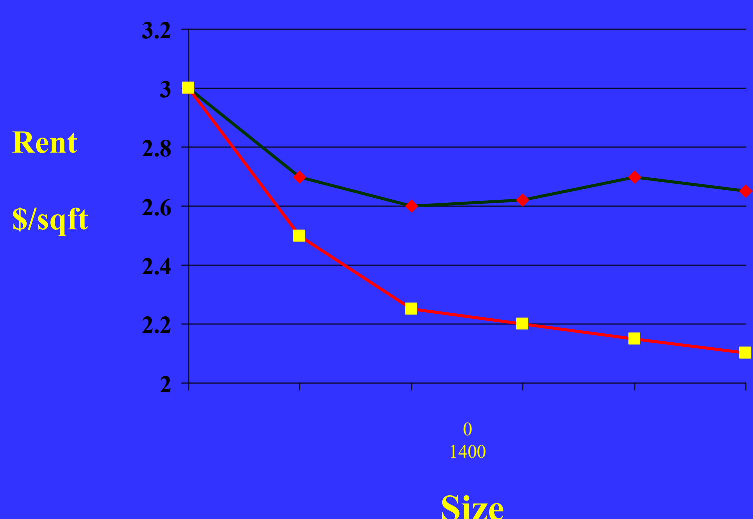
"If You Build It They Will Come"

- Effective Signage To Generate Inquiries To Our Call Center.
- Preliminary Advertising To Gauge "Rental Demand" and "Rent Ceilings".
- Questionnaires To Competitive Property Tenants.
- Quantity Absorption Rates.
- Begin Building The Priority Waiting List.

Telephone/Visits/Renters

- **Phone Call** 100
- **Appointments Booked** 60
- **Visit** 50
- **Rental** 10-15

Rent Vs. Size



Generating Revenue Off Campus Housing Department

- Full Sail University charges half month rent as referral fee
- Charge much more for listing apartments
- Sell Banners on Web page

Marketing

Signage

Resident Referral

Print Media

Internet

Resident Referral

1. Door hangers
2. Post Cards
3. Posters
4. Whiteboard on Easel in Leasing Office
5. Lifetime Referral Card (designed to look like a credit card)
6. Standard Exit Sign
7. Front Page of Community Newsletter
8. Referral Fees to Other Communities

Next Steps

- Identify the Universities & Colleges that need purpose built student housing.
- Find land close to university
- Work with municipality zoning for Apartments
- Finance new constriction (development fees and tax incentives)
- Property Management