

# Multifamily Market Commentary – June 2015

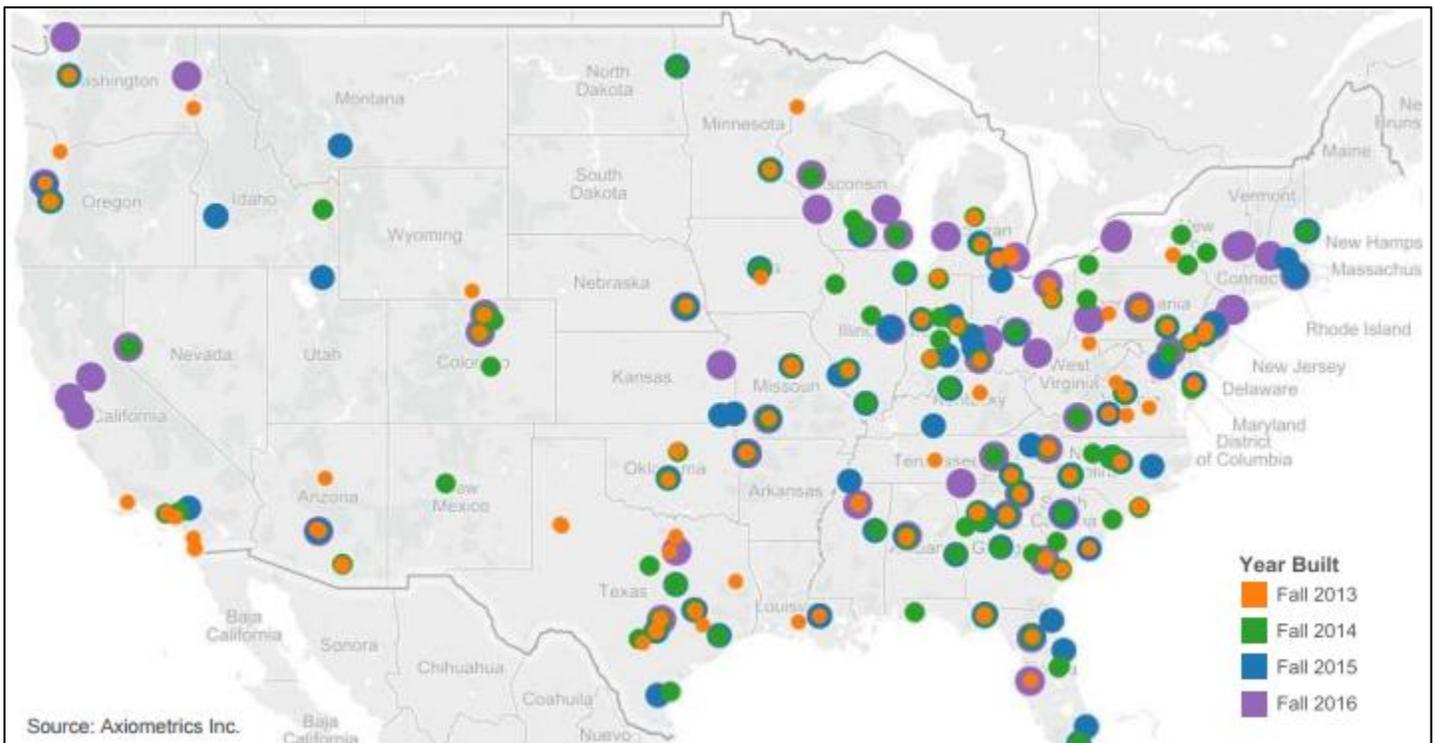
## Student Housing – Staying at the Head of the Class

The student housing sector has been attracting investment at a rapid pace over the last few years. Both 2013 and 2014 brought record amounts of new supply to the sector. Approximately 124,000 beds were delivered across the nation in a very short period of time, which raised concerns regarding potential oversupply. However, according to multifamily data and research firm Axiometrics, Inc., that pace has slowed to approximately 48,000 new beds expected in 2015. The slowdown in deliveries is a good thing for the sector as it should allow for occupancies and pre-leases to increase and catch up with supply over the short term.

### Status of Deliveries Improving

This year's estimated 48,000 bed delivery is approximately 75 percent of the number of beds delivered in 2014. The map below, provided by Axiometrics, is an indication of the status of not only this year's and next year's anticipated student housing supply, but also the last two years' amount of supply. The last two years saw a record amount of student housing supply delivered throughout the country, as the copious amount of orange and green dots on the map below demonstrate.

### Off-Campus Student Housing Fall 2013-2016 Deliveries



## Student Housing Sector: Three Major Players

The student housing industry is made up of many developers and sponsors, some of which are new to the sector. Perhaps the three developers with the most profound impact within the industry are American Campus Communities, Campus Crest Communities, and Education Realty Trust. Of the three, Austin-based American Campus Communities is the biggest industry player. Founded in 1993, its portfolio consists of approximately 95,000 beds at 205 properties across the country. The freshest face among the three major players, Campus Crest Communities, was founded in 2004. According to Axiometrics, CCC currently has a portfolio containing approximately 43,000 beds at 47 properties across the country. Lastly, Education Realty Trust, which was founded in 1964, has approximately 25,000 beds at 47 properties.

## A More Crowded Field

Every year, *Student Housing Business* publishes a list of the top 25 property owners in the sector, as seen in the table below. Owners are defined by the number of off-campus student housing beds they provide. To no surprise, the top three owners are American Campus Communities, Education Realty Trust, and Campus Crest Communities.

Among the top 25 owners, the average number of beds owned is approximately 15,800. As shown in the table below, there were three new entrants to the top 25 this year – Blue Vista Capital, Kayne Anderson, and Harrison Real Estate – all of which were previously unranked in 2013.

## Top 25 Student Housing Owners

Company (Ranked in Order)	Net Beds	% Change from 2013	2013 Rank
1. American Campus Communities	102,825	1.79%	1
2. Education Realty Trust	31,359	7.39%	3
3. Campus Crest Communities	30,035	-47.02%	2
4. The Collier Companies	22,184	-2.43%	4
5. The Scion Group	16,253	25.41%	8
6. The Preiss Company	15,246	18.97%	7
7. Blue Vista Capital Mgmt. LLC	13,839	N/A	NR
8. Campus Living Villages	13,495	-4.06%	5
9. Horizon Realty Advisors	12,063	14.47%	10
10. Campus Apartments	10,789	-3.82%	9
11. Kayne Anderson Real Estate Advisors	10,747	N/A	NR
12. Aspen Heights	10,661	41.44%	19
13. Campus Advantage	10,175	14.13%	13
14. Diamond Realty Investments Inc.	8,603	-1.87%	12
15. Inland American Communities	8,594	-3.82%	11
16. Campus Evolution Villages	8,500	33.12%	23
16. University Communities LLC	8,500	23.53%	17
17. Vesper Holdings	8,407	26.32%	21
18. Landmark Properties	7,696	19.43%	20
19. Sterling University Housing	7,216	1.61%	16
20. Columbus Pacific Properties	7,115	18.85%	22
21. Pierce Education Properties	7,094	21.00%	25
22. Capstone Collegiate Communities, LLC	6,447	0.25%	18
23. Trinitas Ventures	6,305	11.07%	24
24. Harrison Real Estate Capital	5,999	N/A	NR
25. M&A Real Estate Partners	5,060	8.26%	27

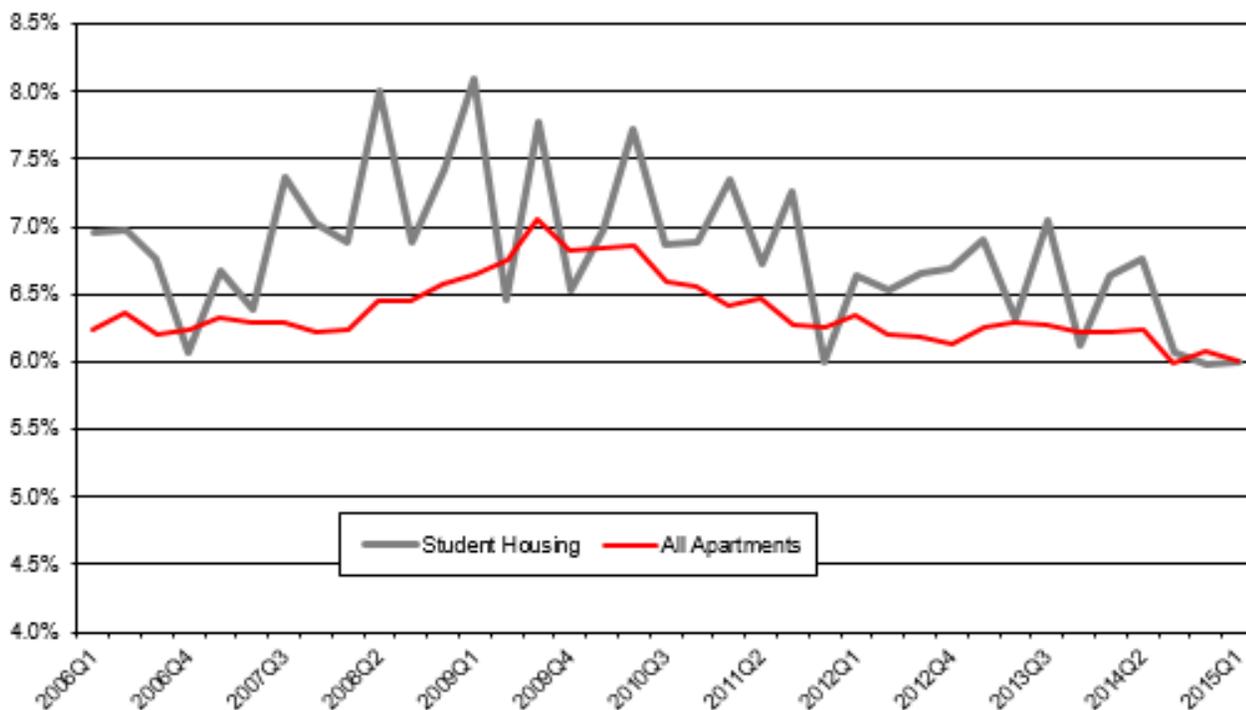
Source: *Student Housing Business*

## Student Cap Rates Trending Down

According to Real Capital Analytics, the 12-month average capitalization rate on student housing properties through the first quarter of 2015 was 6.0 percent, down by 10 basis points from the previous quarter and well below the 8.10 percent peak in first quarter 2009. Comparatively, the average cap rate for all apartments in first quarter 2015 was also 6.0 percent.

As shown in the chart below, student housing cap rates have historically tended to trend higher than the overall apartment sector's average cap rates and have tended to align only over the past few years. Investors appear to be viewing the investment risk profile of student housing properties to be on par with conventional market-rate multifamily properties, despite the sector being a niche property investment. Time will tell if this perception was in line with market realities.

## Student and Apartment Cap Rates as of Q1 2015



Source: Real Capital Analytics

## Global Investment in U.S. Student Housing – The Beginning of a New Trend

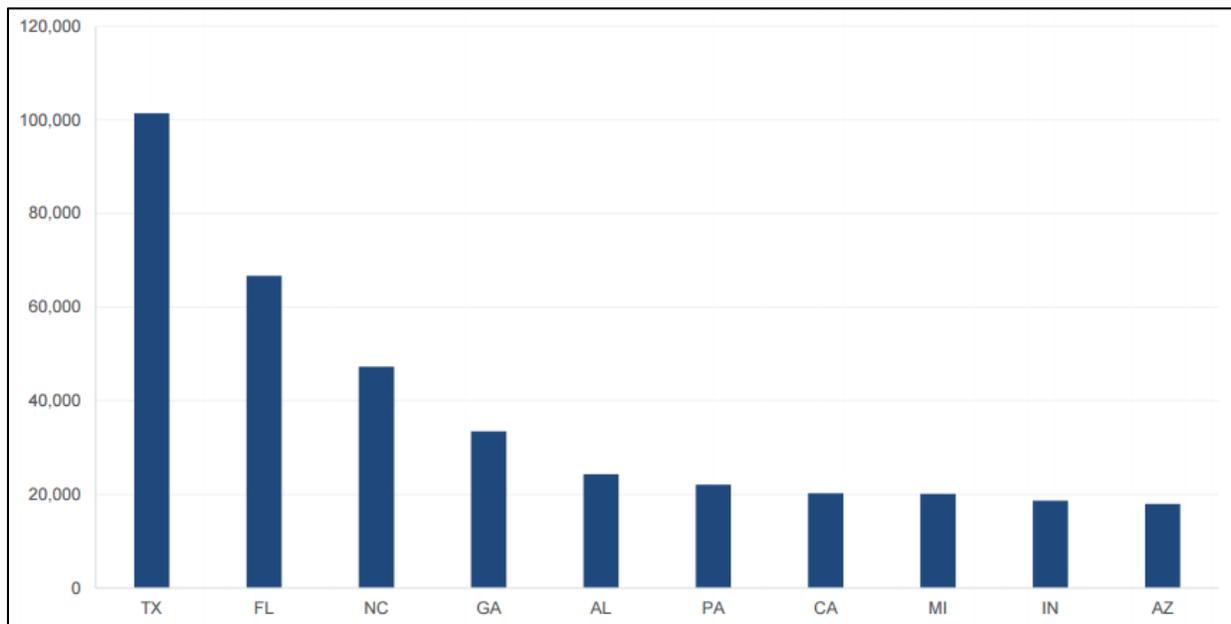
The success and rapid expansion of the student housing sector is gaining the attention of non-U.S. investors. According to online real estate news website *BisNow*, with many public universities in debt, they are hoping to attract non-U.S. investors who are looking to gain a foothold in the nation's real estate sector, specifically in student housing. Non-U.S. investors have an incentive to bring their funds to the U.S., thanks in part to the federal visa program known as EB-5. The EB-5 program allows foreign investors to gain permanent green cards if they invest a minimum of \$500,000 in a company that creates at least 10 full-time jobs within two years.

## Deliveries Slowing Down

Although student housing supply is delivered across the country, as the chart below illustrates, many of the beds have been concentrated in the same 10 states since 1995. Texas leads the way with receiving more than 100,000 deliveries since 1995. With the presence of larger universities such as the University of Texas-Austin and Texas A&M, with approximately 52,000 and 54,000 students enrolled (respectively), the number of beds delivered to the state of Texas has been justified over the years, as demand is present.

The state of Florida has had the second highest number of beds delivered since 1995 at more than 60,000. With the presence of Florida State University and the University of Florida, which have approximately 41,000 and 50,000 students enrolled, respectively, ongoing demand has been the driver of deliveries.

### Number of Off-Campus Student Housing Beds Delivered by State from 1995-2014



Source: Axiometrics

## Top 20 University Delivery Outlook

Since 1995, roughly 671,000 off-campus beds have been delivered to more than 200 universities. Approximately 40 percent of the beds delivered since 1995 have been to just 20 universities in the U.S. Of these 20 universities, half are located in either Texas or Florida, as seen in the table on the following page. These are the two states that have cumulatively had the most beds delivered since 1995. Florida State University has had the most beds delivered since 1995, totaling approximately 20,300.

Rounding out the top three with the total number of off-campus beds delivered since 1995 are Texas A&M University and the University of Texas-Austin, with respective totals of 19,600 and 17,900 beds. The University of Florida has had the fourth highest number of off-campus student housing beds delivered since 1995, totaling 18,200.

## Universities with the Highest Annual Number of Off-Campus Beds Delivered from 1995-2014

University	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total Since 1995	All Time Total
Florida State University	1,200	1,410	1,060		489	642	144		1,389	1,668	2,503	1,079	20,362	26,904
Texas A&M University	596		1,608		828	2,717		624	1,913	1,413	1,704	1,204	19,598	21,747
University of Texas at Austin		190	2,534	625	1,407	1,045			796	2,006	1,299		17,851	18,361
University of Florida			1,488		3,768	770				321	791	752	15,385	18,200
Texas State University	486	1,480	748		487	504		1,956	1,344	2,212	2,127	1,000	15,894	16,330
University of Central Florida				620			763	764	995		2,207		15,000	15,600
University of Alabama			1,200	908	1,306	300	1,350	700	820	1,298	1,478	1,919	11,639	12,319
Georgia Southern University	314		1,404	754	600	275	536		780	2,605		668	9,544	11,631
University of Georgia		285			876				372	584	1,420	292	8,227	10,929
Texas Tech University	522	1,829	864		1,351	465		562	612	2,089			10,545	10,873
North Carolina State University	908		624			96			1,770	36	162	822	9,782	10,644
East Carolina University	1,017	2,580		1,056	1,232	288		728				580	9,881	10,077
University of Arizona	552	500							764	1,935	1,219		8,605	9,957
University of Missouri		768	1,104	513				632	780	2,342	642	351	8,848	9,552
University of Texas at San Antonio		828		751	696	612	1,116	792	844		1,780		8,121	9,433
University of South Florida		1,136				1,669			734	539			8,942	9,386
James Madison University					1,460	816			360	600			7,217	9,136
Pennsylvania State University										1,785	237		6,786	9,117
University of North Texas	946		696			1,044		1,348	614	905			8,253	8,990
University of South Carolina	1,586			1,300	862	1,969					851	818	7,866	8,898
<b>Total of Top 20</b>	<b>8,127</b>	<b>11,006</b>	<b>13,330</b>	<b>6,527</b>	<b>15,362</b>	<b>13,212</b>	<b>3,909</b>	<b>8,106</b>	<b>14,887</b>	<b>22,338</b>	<b>18,420</b>	<b>9,485</b>	<b>228,346</b>	<b>258,084</b>
<b>Total of 200+ Universities</b>	<b>25,695</b>	<b>31,475</b>	<b>35,883</b>	<b>25,308</b>	<b>43,535</b>	<b>29,677</b>	<b>17,384</b>	<b>25,484</b>	<b>43,133</b>	<b>58,104</b>	<b>64,891</b>	<b>44,128</b>	<b>599,513</b>	<b>670,823</b>

Source: Axiometrics

### Experience Matters in Student Housing

The last few years have seen a robust amount of off-campus beds delivered. Approximately 124,000 beds were delivered in 2013 and 2014, stoking fears of oversupply for the sector. However, in 2015 the market appears to be settling down with just 48,000 beds expected. The dip in beds delivered this year is expected to allow the student housing sector to work through its existing supply. The reduction in beds delivered also should help increase both occupancy rates and rent growth as developers will not be forced to beat out rivals in delivering the latest and greatest student housing units.

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