

In the purpose built rental apartment sector, student housing offers the greatest opportunities for returns for developers and investors with expertise in this important niche.

In mid-October, over sixty developers, apartment managers and financiers attended a symposium in Burlington, Ontario on Canadian student housing. After listening to experts in the field talk about student housing development, management and financing, they boarded buses and cars and headed across the border to Buffalo, New York. There, American Campus Communities vice-president Melinda Farmer took attendees on a tour of three cutting edge student housing developments near the University of Buffalo.

Not The Student Housing You Remember

The stereotypes of student housing were nowhere to be found on the tour. The rooms were immaculate and well furnished. Students were using well-appointed common areas like games rooms, study rooms, or fitness centres. There was free Wi-Fi, and a regular shuttle between the developments and the University.

The developments Melinda Farmer of Canadian Campus Communities showed attendees were the tip of the iceberg for American Campus Communities. The company started in the business of managing purpose-built student housing in 1997 with four employees and one office. They have since developed more than \$3.8 billion in properties across the United States and are expanding into Canada.

The properties they own have been lucrative. Consider that for the privilege of quality, furnished apartments, each student pays, on average \$675 per bed per month. Four students share a kitchen and a common area. So, each four-bedroom apartment rents for \$2,700 per unit per month -- in Buffalo.

Favourable Demographics

This past September, over 942,000 students enrolled full time at 82 universities across Canada. Over 10% of those students came from countries outside of Canada. Indeed, over half a million students are attending universities outside of their home areas. There are only 113,250 beds on campus. Where do students sleep?

Mark Humphreys of Humphreys and Partners Architects, L.P., an award-winning development company based out of Dallas, Texas, has been developing student housing properties throughout the United States for years and has seen substantial growth in the purpose-built rental student housing sector.

“We’ve seen a huge opportunity in rental,” said Mark. “Over 75 proposals went out for new student housing developments in the United States just last year, an incredible total given the US economy.”

Humphrey’s and Partners Architects are moving into Canada, and they’ve identified student housing as a prime opportunity. “We came here to do purpose-built apartments, then asked,

where is the student housing?" said Mark. "The student housing we saw was similar to the US, but it was somewhat similar to what we were doing twelve years ago."

Even so, the student housing is strong and growing. Earlier in 2012, the apartment brokerage Rock Advisors Inc., sold more than \$215 million in student housing. Institutional investors are starting to take notice.

Such investors include Greg Romundt, President of Centurion Apartment REIT. "We've been watching the space for about two years. We believe that the number of purpose built beds in Canada could increase by a factor of five."

Centurion Apartment REIT owns five student housing properties in three cities – London, Waterloo and Montreal. Together, they comprise 1,400 beds, and the company is looking for more. "I believe there is now enough scale to make the space worth investing in and that there is sufficient momentum that we'll be able to significantly build on what we already have," says Greg.

What Students Want

Student housing developers need to be aware of the special needs of students. You cannot re-label a conventional apartment and expect it to work. Student housing is extremely location specific, and students expect such amenities as wireless Internet, in-unit laundry, study rooms, multi-purpose rooms, even fitness centers. A location that's at the gates of the university puts you at a substantial advantage, but as long as you are within a few minutes walk or a direct bus ride from the university, you can attract students, and strong amenities will encourage many to stay.

How can students afford such accommodations? Today's students have more purchasing power than ever before. They are backed by parents who have saved for their children's education for years. For them, a good educational experience includes housing which is close to schools, safe, and which caters to the students' needs.

"Sure, the students can't afford it," says Mark. "But they're not the ones paying for it. I have three daughters. I'm paying for it!"

Hands On Management

Melinda Farmer warns that students require more hands-on management than other tenants. "You are dealing with more people when you're dealing with student housing," she said. "You're dealing with parents, step-parents and grandparents. All of those people are your clients, not just the student who signed your lease. You have to have a lot of patience."

Brian Freeman agrees. He is a senior vice president at Campus Living Centres, which manages over fifty properties, including a number of on-campus residences at the Universities of Guelph and Western Ontario. "It's a different skill-set than is required for a typical multiplex," he says. "The relationship with the institution and its students is

absolutely vital. Most of our property managers are under thirty, so they can relate to our tenants.”

“There's a lot of different problems and it's very high maintenance,” says Tara Schlupp. She owns Domus Student Housing, a student housing management company that grew from a single property in 2005 to hundreds of beds in dozens of buildings. She recalled an incident where sixteen students piled into an elevator that could only hold ten. “They were hoping to get to the bars quicker, but ended up stuck for an hour. They'd already been drinking so... it was a bit of a mess.”

Conventional apartment managers might shy away from such tenants, but students represent a financial opportunity for managers willing to take a more hands-on approach. “Today's student doesn't know how to do a lot of things, since their parents are doing a lot of things for them right now,” said Tara. “We realized very early on that when five engineering students don't know how to change a light bulb, there is money to be made.”

Student housing management is a tough job, but it's not a thankless one. The higher returns per square foot are plenty of thanks. So is finding a tenant base that's largely recession-proof. Conventional tenants come and go, but the student marketplace is large and growing. If you can find the right properties close to institutions, you have a substantial advantage over your competition.

Combatting NIMBY

A challenge for student housing developers is overcoming opposition from worried neighbours in the community.

“I believe, in a number of communities, there is a certain amount of NIMBYism about student buildings,” said Greg Romundt. “There is a perception that putting lots of students in concentrated towers will bring a number of negative elements into these communities.”

“Our view is that the students are already in houses owned by unprofessional landlords, without oversight,” he adds. “A large student building benefits everyone. Students get top quality accommodation with services, including security. Neighbourhoods see better management of these communities, and cities ensure the buildings are to code and the students are safe. It's easier for a fire inspector to visit a 400 unit student highrise than it is to monitor 100 widely-spaced four-bedroom homes.”

This is one reason that the city of Waterloo, Ontario, has encouraged the development of over 8,000 beds in purpose-built apartments. The quality of life in what used to be the student housing ghetto has improved. Indeed, as students move out of converted single family homes to purpose-built mid-rises and high rises, families have started to move back in.

Educating Financiers

Perhaps the biggest challenge to developing student housing is educating lenders about the opportunities that exist here. Sandy Harrington of IC Funding Financial has been funding student housing projects for years, and he has had to overcome preconceptions.

“Lenders remember the way they lived when they were in University,” says Sandy. “They can't believe the buildings that are being built for this industry. You have to have a persuasive argument. When we go to the lending world, they want to know that you have student based management expertise. You have to have it ready and available for occupancy by Labour Day. Don't miss your targets.”

According to Sandy, educating lenders is an ongoing process. “Lenders want developments that fit their box, but there are few developments which fit that box. Fortunately, each new development helps expand that box.”

A Call to Action

Purpose-built student housing in Canada today is where purpose-built student housing was in the United States twelve years ago. Canada can clear this gap within a year or two. This is because developers in the United States have learned much by serving the marketplace south of the border. Mistakes have been made and corrected.

It's time to build student housing in Canada. The marketplace is strong and growing. The demographics are favourable and the opportunities tremendous. Purpose-built student housing is good for the students, it's good for the universities, and it's good for the cities that house them. It's good for developers and investors as well.

Derek Lobo is the CEO of ROCK Advisors Inc., which has brokered \$215 million in student housing in the past year. Derek can be reached by email at dlobo@rockaptadvisors.ca.