



Real Estate Advisor

A Soaring Housing Market: College Apartments

Brad Berton, 02.23.10

Imagine leather furniture, wide-screen plasma televisions, pools, beach volleyball courts, day spas, tanning booths, theaters and concierges.

Were you thinking resort hotel? Nope. This is today's college crash pad.

There's an investment opportunity here. The recession is grinding on painfully for owners of apartments office properties, hotels and shopping malls. But owners of student housing face far less distress. What's more, two of the biggest players in student housing are publicly traded real estate investment trusts.

American Campus Communities and Education Realty Trust will have adjusted funds from operations (akin to earnings for REITs) of \$1.42 and \$0.36 a share in 2010, respectively, projects Green Street Advisors in Newport Beach, Calif. Both REITs' earnings are likely to grow smartly in 2011 and beyond.

12 REIT Stocks Ready To Break Out

Student-housing landlords are benefiting from echo-boom demographics. The influx of the children of baby boomers has boosted the growth of college enrollment from the moribund sub-1% levels of the mid-1980s to between 2% and 3% in recent years. The U.S. Census Bureau says the number of Americans in college grew from 9.3 million in 1998 to 11.5 million in 2008. The number of high school seniors this year is at a record 3.2 million, reports the U.S. Department of Education. The agency expects college enrollments will continue to set records until at least 2015.

Where potential tenants flock, developers follow. They've figured out that well-off parents are eager to house their children--daughters, especially--in secure accommodations that include private bedrooms and bathrooms. Developer Harold Tomlinson says dads and moms fret over the prospect of their daughters parading past young men "in robes and flip-flops" en route to communal showers in old-fashioned dormitories.

Along with formidable security and modern comforts come higher rents. Tomlinson's Boca Raton, Fla., company has developed a project at the University of North Texas in Denton, Texas, where fully furnished three- and four-bedroom units will rent for well over \$500 per bedroom per month. In the highest-cost college towns, per-month rents occasionally hit the \$1,000-a-bedroom mark. The latest student-housing developments usually accommodate 500 to 1,000 students.

There are also dozens of other developers around, many of them seemingly faring well and breaking ground on lots of new properties. Among the biggest of these private players is Houston-based Dinerstein Cos. Brian Dinerstein, who helps his father Jack run this company, says occupancy rates at his company's high-end student-housing properties remain in the mid- to high-90% range, despite the slumping economy. Rents in the student properties haven't plummeted, says Dinerstein, so net operating incomes for those properties "are significantly better than for our conventional apartments."

Dinerstein is pre-leasing initial phases of projects opening this fall near San Diego State University and near Orlando's Central Florida University. His company has another in Tuscaloosa, near the University of Alabama, that is slated to open in the fall of 2011. The firm's planned Denton project may be up and

running then as well. Dinerstein properties are more luxurious than most, and rents run from \$650 to \$730 a month. Coeds outnumber men at the firm's upscale developments by nearly two-to-one.

To break ground, Dinerstein has had to raise extra equity because lenders are only willing to finance 65% of a project's cost, vs. 80% three years ago. The tight financing environment may favor the student-housing REITs, says Dinerstein. It's easier for the publicly listed outfits to raise equity. Education Realty recently opened an upscale property near Syracuse University's south campus. A room in a four-bedroom apartment there runs \$850 a month on a 10-month lease.