INSTITUTE FOR REAL ESTATE OPERATING COMPANIES
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University Communities

Student Housing for the Win

David "Mac" McWhorter, executive director of the Institute for Real Estate Operating Companies (iREOC), recently spoke with Lee Ryder and Randy Fein of University Communities, a premier investment management and national operator specializing in student housing. An excerpt of their conversation follows.

Student housing is a niche sector. Can you tell us a little bit about it and about University Communities?

Ryder: Our team is one of the first players in institutional student housing. The sector has grown to be an established part of multifamily, with a consistent return profile. Randy and I started working together about 15 years ago when we ran the student housing portfolio at Aimco apartment REIT. We found we had a shared passion for the subsector. We found it an interesting niche that produced long-term returns, but more than that, it allowed us to have a real impact on people's lives. Every year, we greet our student tenants on move-in day and see their excitement at starting this stage in their lives. It's an important time for the students and their families, and we are reminded every fall about the important role we play.

Fein: When Aimco decided to sell its student housing portfolio about 13 years ago, Lee and I set out on our own and founded University Communities. We were fortunate to have Aimco and CalSTRS join us as capital partners, and they have proved to be an invaluable source of support through all these years. We are now at a stage where it makes sense to diversify our capital sources and investor base, and make sure we have a well-funded long-term business for the next generation.

What is your investment strategy?

Ryder: We invest in all different types and vintages of student housing, whether they be high rises, mid-rises or garden units. We look to provide amenities and services that set us apart from other complexes in the market. We also invest across the country in a variety of locations. We currently are at 28 different universities. The common thread throughout our portfolio, however, is that our buildings are all very close — we call them beachfront — to Tier 1 universities. These are doctoral-granting universities, with consistent enrollments in excess of 20,000 and Division I athletic programs. These are the schools you see playing sports on TV. Although the type of school is a driver, the real key to a successful student housing investment is proximity to campus. The assets in our portfolio are an average of 300 yards from these major campuses. We are the closest-to-campus portfolio that exists in the country. Students can roll out of bed and walk to class in 10 minutes at every one of our sites.

How do you find these sites?

Ryder: We know all the properties that meet our parameters. We know who owns them, and they know us. When they are ready to sell, we are there. We have been an institutional buyer in student housing for a long time, and our track record speaks for itself. When a seller wants surety of execution, we are at the top of the list.

Fein: We also keep our eye out for properties that are being mismanaged, because it is only a matter of time before they will become available. Those are the kind of opportunities we try to swoop in on, and we have been very successful at that.

Is the university involved?

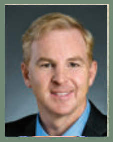
Fein: We have done partnerships and joint development with universities in the past, but we prefer off-campus, non-affiliated housing because it produces a pure-play real estate asset. It allows us to benefit from land valuation, as well as achieve the best risk-adjusted return.

Real estate is well known as a boom and bust asset class, with developers building too much during the boom times. Does student housing ever have too much supply?

Ryder: Although overbuilding can certainly occur, we are able to insulate our portfolio from the effects by always being very close to campus. If someone builds a new project, it is going to be farther away than we are. Thus, we are less affected by new supply.

Fein: We have seen some markets get overbuilt, but that imbalance typically works itself out quickly. The demand for student housing has consistently increased and will continue to increase because of the influx of international students and demographic demand shift into U.S. schools. There isn't a single Tier 1 school in America — which are the schools we focus on — that doesn't have nearly unlimited international demand because

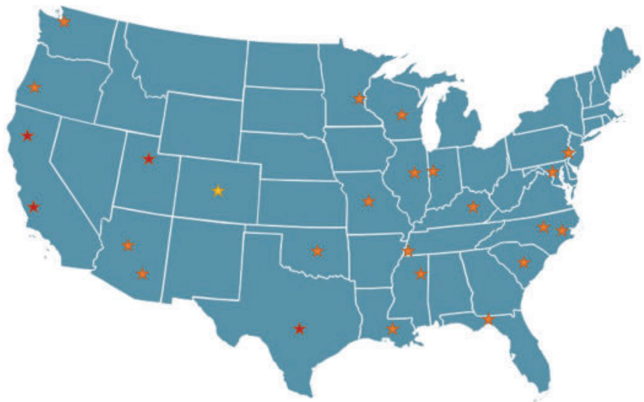
CONTRIBUTORS



Lee Ryder is a co-founder and president of University Communities. Prior to University Communities, Lee was CFO and director of acquisitions for the student housing division of Aimco.

Randy Fein is a co-founder and principal of University Communities. Prior to University Communities, he was an executive vice president for the student housing division of Aimco.

Coast to Coast Footprint



the world covets our higher education. This sustainable demand insulates us not only from oversupply risk, but from other risks, such as demographic or technology shifts.

What are the risks to student housing investment?

Ryder: Far and away the biggest risk is the operational risk. Student housing is management intensive, and so the operator is very important to the success of an investment. It's not unusual to see a regional multifamily¬type player hop into student housing and, all of a sudden, have trouble with the short window of leasing and turning all their units during the summer. They are used to changing 10 percent of their property at a time; they are just not geared to run student. A good operator understands what it is like to turn all of those units at the same time, what it is like to operate in a short window of leasing, what it is like to market to college-aged students, and how important it is to stay in touch with the customer. All of that is a real specialty and, if you are not invested with a proven track-record specialist, you are putting yourself at risk.

What is the typical return range an investor can expect from a student housing investment?

Ryder: It is difficult to lump student housing into one risk/return profile. Assets just a quarter mile away from campus will have an entirely different profile than assets located right next to campus. Additionally, the schools that you are invested at have different risk/return parameters. However, broadly speaking and assuming normalized leverage, today you could reasonably expect an 8 percent to 10 percent return for core-type assets and mid-teens for value-added assets.

What does student housing give an investor that they couldn't get from a traditional multifamily investment?

Fein: Investors add student housing for its consistent, dependable cash flow. We haven't had a draw-down month in any of our funds in the entirety of our existence, so the investors have always gotten a check every month. This subsector has been well tested through a number of market cycles, and the niche has consistently produced cashflow for its investors. During the Great Recession of 2008-2012, for example, student housing rent growth never went negative, as multifamily eventually did.

Ryder: Among all the real estate sectors, student housing is the least sensitive to changes in the economy. When GDP is increasing, student housing is not going to increase as fast as some other sectors, such as hotels and malls. But when GDP is flat or falling, student housing returns will not decrease very much either. It is really just a steady, steady investment with solid risk-adjusted returns. The highs aren't high, but the lows aren't low.

Fein: The beauty of student housing is that even if prices overall are falling during a recession, increasing demand for student housing keeps our rents steady or even increasing. Then, during inflationary periods, we can quickly increase rents to keep pace. We try to retain roughly 30 percent to 40 percent of the students each year, while generating new leases for the remaining 60 percent. Those new leases will be priced to take into account any inflationary pressures. So, it is a very fine inflation hedge without the problematic issue affecting hotels, for example, which is that you don't know if people are actually going to show. We have a very high show rate, and people stay the entire term of their lease.

Also, it is just a fun niche. You get to see young people at their finest. When you visit campuses around graduation, you see the American dream fulfilled. You will see a family ranging from the 85-year-old grandfather to the 12-year-old brother to the 2-month-old cousin, and everybody is there to watch their kid graduate. It is part of the American experience regardless of your economic status, your politics, your religion, whatever. When investors feel that family pride and optimism for the future, they understand the difference between student housing and traditional multifamily. You hear a lot of talk about impact investing today. You can't be much more impactful than supplying the housing for the next generation.

Why should investors invest with University Communities?

Fein: As founders, we are not afraid to wear our passion for student housing on our sleeves. When building our team, we sought to hire those who have the same commitment and passion. We aren't looking for people for whom this is just another job. Thus, we have built a culture and platform that are second to none. We have no doubt that our superior results come from this passion.

Ryder: We are not speculators. We are long-term investors and operators. The team has been together for many years, and we know our true strengths —finding well-located assets at universities and operating them. Once you have a well-located, properly leveraged asset, where you are able to raise rent and keep it fully leased, you have a tremendous vehicle for cash-on-cash return. We believe we are one of the best in the business when it comes to doing just that.

OVERVIEW

University Communities LLC is an institutional money manager that acquires and operates a national platform of university-related housing. With years of experience in real estate investment management, specifically concentrated on student housing, University Communities is equipped with a tremendous knowledge and deep understanding of the student housing industry. How we analyze markets, operate our communities, and manage and market our properties all stem from this extensive background in business.

CONTACT

Lee Ryder, President and Co-Founder
University Communities
info@ucommllc.com | 303.300.9028