



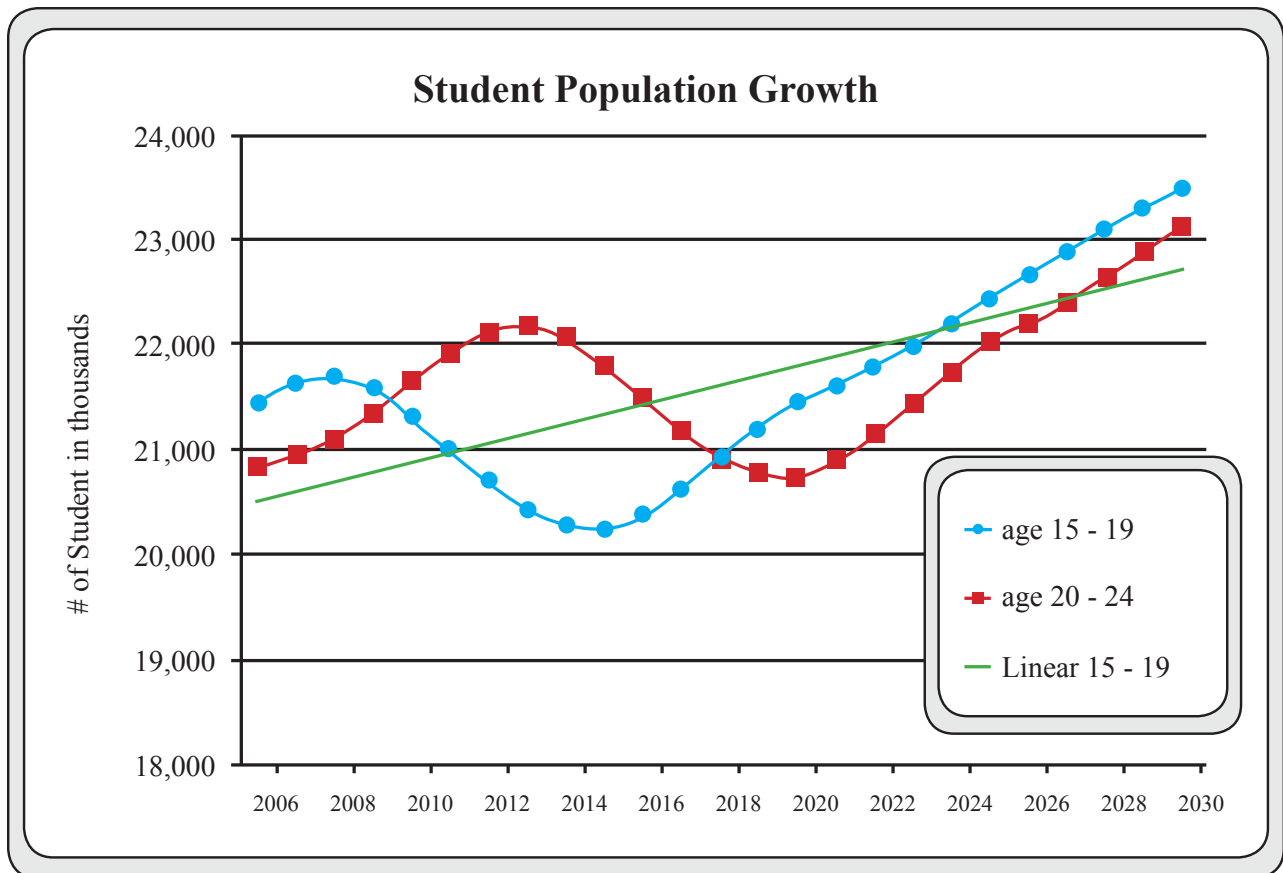
ARA NATIONAL STUDENT[®]
HOUSING GROUP

WHITEPAPER

INDUSTRY REVIEW

Over the past decade, the student housing (“SH”) industry has experienced significant growth fueled in large part by the demographic trends supporting it. The “Echo Boomers” are defined as the children of the Baby Boom generation, 15-24 years in age or of college age. This Echo Boomer segment of the population is experiencing a significant spike, peaking around 2011-2013 as more and more children go off to college. University enrollments across the nation have experienced marked growth following this population segment since the early 2000’s. In addition, more students are choosing to stay in college to pursue additional or advanced degrees due to the bleak job market, and individuals are returning to college for retraining and/or higher degrees.

Along with this growth, many universities have outgrown their existing on-campus housing facilities. At the same time, many on-campus housing facilities have become functionally obsolete, offering tiny bedrooms, common bathrooms and few if any amenities. As student populations grew, specialized student operators stepped in and began offering off-campus housing alternatives with by-the-bedroom leasing structures, luxury amenities tailored to students, roommate matching and all-inclusive rent backed by parental guarantees in slightly modified garden style apartment communities. Today, these communities are purpose-built specifically to meet the demands of today’s students, offering private bathrooms for each bedroom, high speed internet access throughout the property, computer labs, tanning salons and many more options.

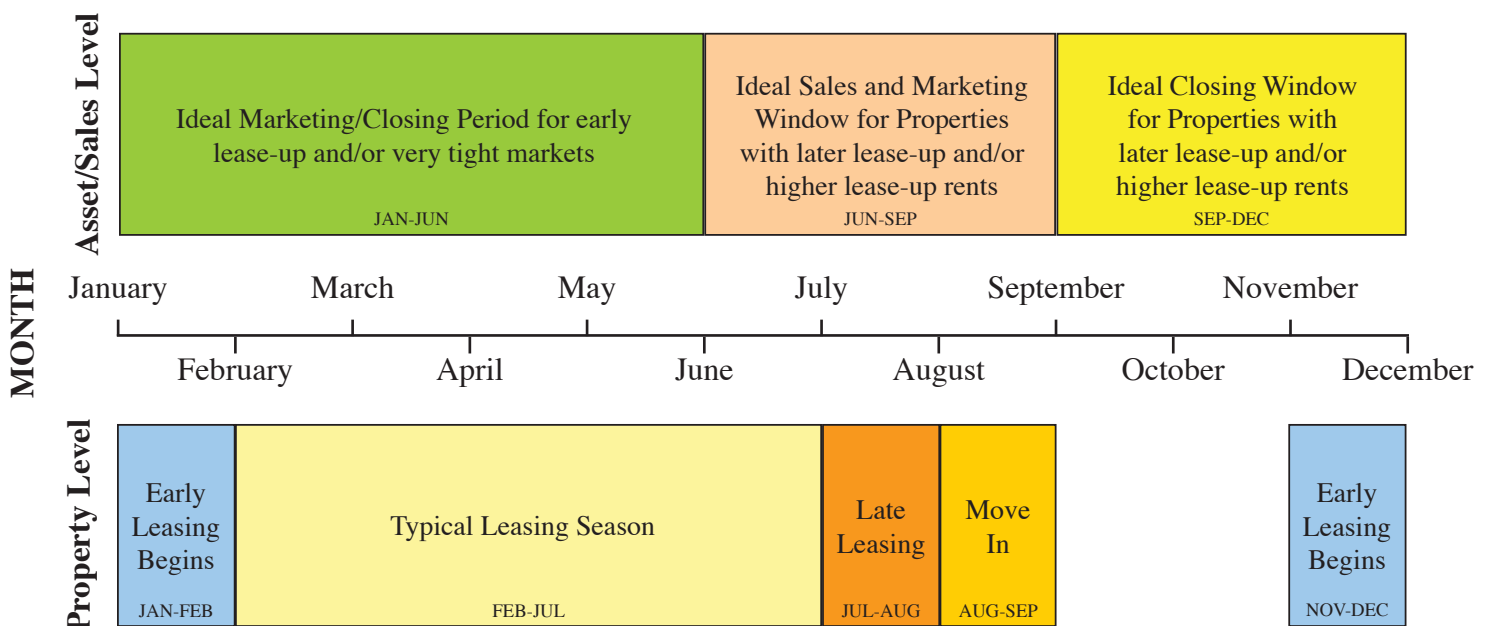


CYCLICAL REAL ESTATE

Student housing is one of the only cyclical marketing asset classes left in commercial real estate. This is due to the elements and timing created by the school calendar.

Property Level: Student housing follows a very cyclical leasing season that centers on the start of the fall school year. The turnover window for student properties is extremely short; typically about two weeks in total. After this point, it is very unlikely that a property will sign any additional leases for the next twelve months. Occasionally some markets will offer short term leases, including spring semester leases. These properties will see some minor fluctuation in occupancy at the end of the calendar year. The softest student markets offer nine month leases and see a dramatic drop off in occupancy during summer months. The vast majority of student operators nationwide offer only twelve month lease terms in order to avoid the economic losses that come with short term leasing. Strong markets will usually begin their leasing season for the following school year during the early winter months, sometimes signing leases 10 to 11 months in advance of lease commencement. The majority of leasing seasons begin around February and last through the early summer, while the softest markets will often continue leasing all the way until the start of the school year.

Asset/Sales Level: Student housing sales occur year-round; however, the ideal student housing sales time frame runs from the early summer into the end of each calendar year. Assuming an asset shows enough leasing velocity by early summer, investors will underwrite the property taking into account the upcoming fall rent roll. This gives ownership the benefit of (hopefully) higher pricing based on improved rent growth for the upcoming school year. This assumes that they will close on the transaction after the start of the school year. This enables the student buyer to accurately forecast the upcoming months of income through the end of the student lease. Once school has started, investors will underwrite based on only the income that is in place for the remainder of the school year.



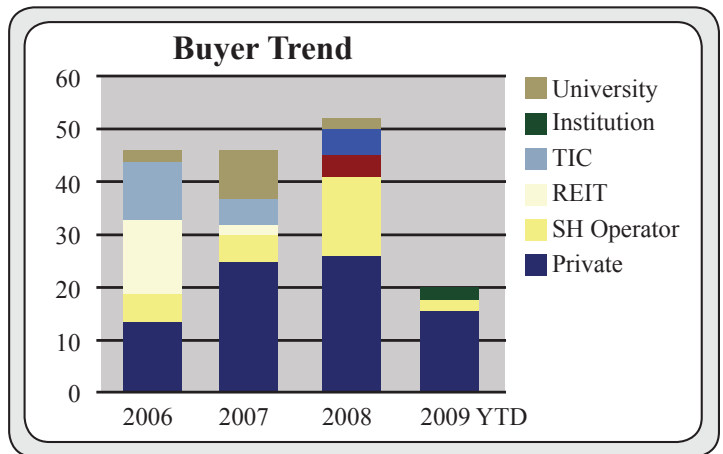
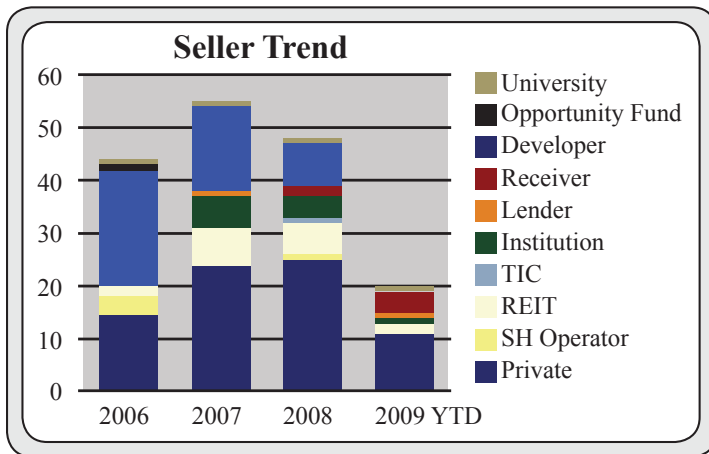
COMPARISONS BETWEEN STUDENT HOUSING AND MULTI-FAMILY HOUSING

Since there seems to be a greater familiarity with multi-family (“MF”) housing, we thought that it might be instructive to point out some of the differences and similarities between the SH and MF which may help highlight the management operational challenges that exist.

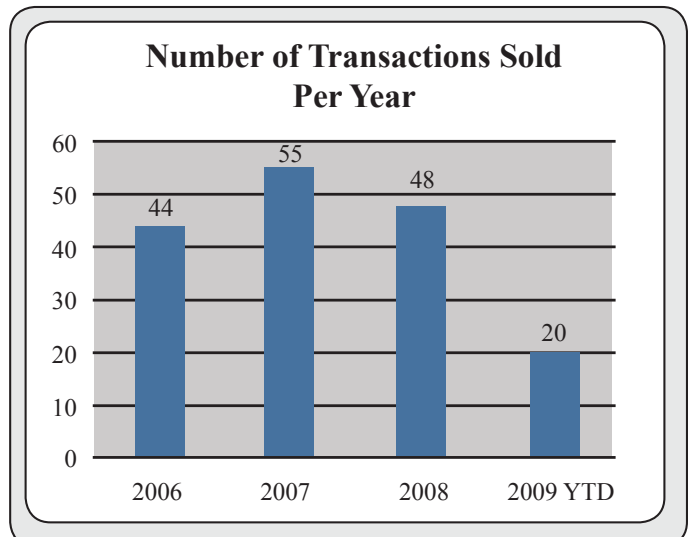
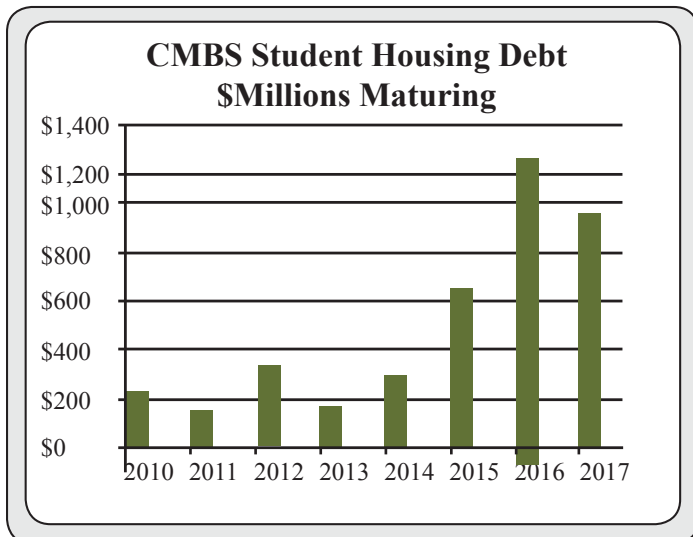
Student and Multi-family Housing Differences		
	Student Housing	Multi-family
Amenity packages (clubhouse, pool, landscaping, etc)	Amenity rich, student specific (pools, weight rooms, study lounges, tanning salons, game centers, etc)	Standard clubhouse and pool
Underwriting process	By-the-Bed underwriting	By-the-Unit underwriting
Lenders - Fannie & Freddie	Freddie will lend 8,000+ students, Fannie will lend on 20,000+ students, 1.30+ DSCR, vacancy constraints, no food service allowed	Market-by-Market specific requirements, lower DSCR requirements
Cap Rates	Typically student housing cap rates are 50 - 100 basis points above a similar conventional multifamily asset in the same market	Market by market variances still exist but 50 - 100 basis points below student assets in the same market
Lease Structure	Typically 12 month leases, occasional 3,6,9 month leases, parental guarantees, all-inclusive (furniture, utilities, etc)	Standard 6 - 12 month leases, no furniture included
Tenant Profile	Heavy focus on students only, very few non-students	All ages, no restrictions
Leasing Cycles	All leases end and begin at the same time, school year to school year	Year-round leasing season
Supply/Demand Issues	Very sensitive to over-supply, university housing mandates and growth	Much larger pool of tenants
Asset Location	Very important to be walkable or within 1 mile from campus	Generally within 10 - 30 minute drive from place of work
Utilities	Typically all-inclusive (utilities: cable, internet, electricity, water, trash, etc)	Individually metered
Average annual household income	N/A - Parental Guarantee	\$116,000

FORECAST FOR THE FUTURE

From 2000 to 2009 we have witnessed a consolidation of the industry, with several public REITs forming and acquiring large portfolios of student housing. Similarly, the capital markets focused more on the segment and both investment and development of the product type increased. By-the-bed housing saw its peak in investment and development from 2005-2007, fueled in part by the easy access to construction and acquisition financing. Unfortunately, the student housing niche is not immune to the credit constraints experienced by the rest of the commercial real estate market. In the current economic environment, the industry has experienced a significant slow-down in new development which has all but ceased.



That being said, there is a healthy amount of investment capital earmarked for student housing waiting patiently on the sidelines. As the market stabilizes over the next 12-24 months, we expect to see an increase in investment activity. Much of this will be centered on existing distressed product, following the rapidly increasing numbers of defaulting CMBS loans that were so prevalent back in 2005-2007.



Since 2005, the **ARA National Student Housing Group** has sold over \$1 Billion in student housing assets. Our national platform and local expertise deliver maximum value and the highest level of service to our clients.

ARA National Student Housing Group

- Seller representation of student housing assets
- Experience in over 100 markets nationwide
- Experience with by-the-bed garden-style, mid-rise, high-rise, dormitory, and urban infill product

Services Provided

- Asset disposition
- Valuation services
- Market/university research
- Distressed asset/note sales
- Acquisition opportunities
- Student housing land/development opportunities

Apartment Realty Advisors

- Partnership of nineteen brokerage offices nationwide
- ARA has the highest grossing brokers of any multi-family firm in the country
- Nationwide market coverage
- ARA partnership consists of 41 advisors with an average of 19 years of hands-on experience



Chris Bancroft
512-637-1216
cbancroft@ARAUSA.com

Chris Bancroft joined ARA in 2007 after a three-year association with a national brokerage firm where he played a primary role in growing their

student housing business on a national level. Chris has experience in over 70 student markets across the country and has been involved in over \$1.5 billion in student housing dispositions in the past 18 months. He interfaces on a daily basis with institutional, private client, developer, tenant-in-common, opportunity-fund and JV equity groups seeking disposition and acquisition services with this product type. Additionally, Chris works closely with developers in the acquisition of student housing land and development sites across the country. Chris previously worked as a financial analyst with Round One Investments, a venture capital firm in the Los Angeles area and worked with Merrill Lynch while finishing his undergraduate degree. Chris holds a Bachelor of Science in Management from Tulane University's A.B. Freeman School of Business and is a competitive triathlete.



Chris Epp
512-637-1218
cepp@ARAUSA.com

Chris Epp joined ARA in 2007. He previously was the director of the Private Client Services Group with the ARA Dallas / Fort Worth office, where he participated

in \$883 million in multi-family sales. Prior to joining ARA, Chris spent five years in the Dallas office of another national brokerage firm. Chris is a graduate of the Edwin L. Cox School of Business at Southern Methodist University, where he earned a Bachelor of Business Administration in Real Estate Finance. Chris is also a former All American and was team captain of the SMU Swim Team in 2002.

EXCLUSIVELY PRESENTED BY

ARA NATIONAL STUDENT HOUSING GROUP

FOR MORE INFORMATION PLEASE CONTACT

ARA NATIONAL STUDENT HOUSING OFFICE

901 South Mopac Expressway
Barton Oaks II, Suite 275
Austin, Texas 78746
Phone: (512) 637-1239
Fax: (512) 637-1740
www.ARAusa.com/StudentHousing

INVESTMENT SALES

Chris Bancroft

Direct: (512) 637-1216
cbancroft@ARAusa.com

Chris Epp

Direct: (512) 637-1218
cepp@ARAusa.com

PARTNERS

Pat Jones

jones@ARAusa.com

David Mitchell

mitchell@ARAusa.com

Jeff Pritchard

pritchard@ARAusa.com



STUDENT HOUSING INVESTMENT SERVICES

ATLANTA • AUSTIN • BOCA RATON • BOSTON • CHARLOTTE
CHICAGO • DALLAS • DAYTON • DENVER • FT MEYERS
HOUSTON • KANSAS CITY • ORLANDO • PHOENIX
SACRAMENTO • SALT LAKE CITY • SAN DIEGO • SEATTLE • TAMPA

WWW.ARAUSA.COM/STUDENTHOUSING