

Student housing is one of real estate's hottest sectors—and Chicago's at the heart of it

By Alby Gallun April 30, 2016



Photo by Kendall Karmanian

Gonzalo Olvera, a Columbia College Chicago student, in the Graffiti Room at Dwight Lofts in the South Loop.

The Hog Butcher for the World has picked up a new title: Landlord to the American College Student. A pair of Chicago firms—Harrison Street Real Estate Capital and Scion Group—have climbed to the top of the U.S. student housing market, making a big leap this year through two \$1 billion-plus acquisitions. A third, Blue Vista Capital Management, which recently launched a \$300 million student housing investment fund, isn't far behind.

They have amassed tens of thousands of beds in college towns like Urbana and Gainesville, Fla., as money has flooded into the student housing sector, once a backwater of the real estate market. The trend has benefited investors, who are selling their properties for top dollar, and college students, who get to live in fancy buildings financed with that money—some with saunas, tanning beds and cabana-lined rooftop swimming pools.

To some investors, college students are the kind of tenants to avoid: They don't have money, cost a lot to manage and come with a reputation for getting rowdy.

But a growing number of real estate investors view student housing as a way to diversify their portfolios. Because college enrollments aren't as vulnerable to the ups and downs of the economy as office, retail and other sectors, student housing is a relatively stable investment. And at the nicest properties, it's wealthy parents, not students, who pay the rent.

Pitching investors on student housing is "not as difficult of a discussion as it was 10 years ago, when it was considered 'Animal House,'" says **Christopher Merrill**, Harrison Street's CEO.

Harrison Street, a private-equity firm Merrill founded in 2005 with former Motorola Chairman **Christopher Galvin**, became the second-largest student housing landlord in the country in March, picking up about 38,000 beds when it acquired Campus Crest Communities, based in Charlotte, N.C. At \$1.9 billion, it was the biggest deal ever in the student housing industry.

In June, Scion expects to complete a deal nearly as big, a **\$1.4 billion buyout** of University House Communities, the 13,000-bed student housing unit of Oak Brook-based InvenTrust Properties. Scion, which was founded in 1999, is forming a joint venture with some deep-pocketed partners

on the acquisition, Canada Pension Plan Investment Board and GIC Private, Singapore's sovereign wealth fund. Scion will own 5 percent of the portfolio, while its partners will each own 47.5 percent.

By attracting wealthy foreign investors, the deal illustrates how far the **student housing industry**, once more of a mom-and-pop business, has matured over the past 15 years or so.

"It's become much more institutionalized pretty quickly," says Ryan Burke, an analyst at Green Street Advisors, a Newport Beach, Calif., research firm. "And this is just a big step in that (direction)."

After the deal closes, Scion will own nearly 37,000 beds, making it the third-largest student housing landlord in the country after Harrison Street, with about 76,000 beds, and American Campus Communities of Austin, Texas, with 99,400. Blue Vista is sixth, with about 21,000 beds.

CITY LUCKS OUT

The Chicago location of the three companies is a coincidence, but the concentration of so much specialized expertise in one place "will feed on itself," says Blue Vista Chairman **Robert Byron**. "People will leave and start their own businesses," he says. "People will go back and forth between companies."

Blue Vista, whose portfolio extends from Columbia, S.C., to Tempe, Ariz., owns two properties in Chicago: **Tailor Lofts**, a 477-bed building near the University of Illinois at Chicago, and Vue53, a 267-unit apartment project in Hyde Park, near the University of Chicago.

With high tenant turnover and significant wear and tear on properties, student housing tends to cost more to manage than conventional apartments. But the payoff can be big for investors that buy right, especially in college towns with limited competition. Harrison Street's Merrill estimates that annual returns on student housing are about 1 to 1.5 percentage points higher than on conventional apartments.

A big firm that has a large, sophisticated management business has the potential to make out even better because it can run properties more efficiently than its smaller competitors.

However, investment returns are shrinking now because the influx of capital has pushed up property values, says Green Street's Burke. "It's harder to make money in this business now than it was before," he says.

Nonetheless, Scion President **Robert Bronstein** thinks the industry will keep consolidating as institutional investors keep buying. He expects Scion and its partners to buy 10,000 to 12,000 beds annually for the next few years, mainly around big public universities.

Eventually Scion—which does not own any properties in Chicago—could sell out to another investor or sell shares in an initial public offering, but that's "most definitely something we are not looking to do now," Bronstein says.

Harrison Street, meanwhile, has no ambition to reach a certain size and eventually go public. It will continue to buy and sell properties on a market-by-market and property-by-property basis, Merrill says.



Photo by Kendall Karmarian
Christopher Merrill, CEO of Harrison Street, which owns Dwight Lofts.

Last August, a Harrison Street fund paid \$105 million for **Dwight Lofts**, a 771-bed property in the South Loop, its only student housing investment here. Though the downtown market is a bit soft, Merrill liked the deal because Columbia College Chicago leased the entire building for its students through 2026.

“When we go into some sort of recession, I’m not worried about Columbia not paying rent,” he says.
