



Dinerstein is developing Sterling Alvarado at San Diego State University. Rendering courtesy of Humphreys & Associates Architects.

# DEVELOPMENT STILL BUSTLING

*Student housing development has settled into a group of well capitalized established players. That doesn't mean there's no competition.*

By Randall Shearin

Development is alive and well in the student housing sector, a statement that many other property types can't boast. From coast-to-coast, many colleges and university communities are seeing a continual increase in off-campus student housing development. Creators of these new projects aren't sitting still, either. They are continuing to improve upon the products that have given them a reputation for quality among students.

Development, as seen by developers, is opportunistic and market-based. That said, many developers are selective about where they go and what kinds of projects they do. They can do so because there is a relatively small pool of developers who can build sizeable projects in the student housing sector today.

"We see development continuing, but we see the usual suspects developing," says Ted Rollins, co-founder and CEO of Campus Crest Communities. "It continues to be challenging to get debt terms that are attractive from the banks or the broader market. You don't have the [competitive] pressure that you had pre-2008. The banks are still selective."



Campus Crest has a 612-bed project called The Grove at Laramie under development near the University of Wyoming.

Campus Crest has gone after a second-tier market strategy, which targets the colleges and universities that are not a state's primary university.

"We think the market is still fragmented for student housing," Rollins says. "It is an opportunity for the second-tier markets we serve. These colleges are growing."

Campus Crest has six new developments underway near Auburn University, Northern Arizona University, the University of Maine, the University of Arkansas, the University of Wyoming and Oklahoma State University. All of the projects are less than a mile from campus.

"Location is still key in this business," says Mike Hartnett, co-founder and chief investment officer of Campus Crest. "Every college town has a sophisticated and educated zoning board. It is tough to get approvals and entitlements for projects. We don't see these barriers to entry getting easier, which is a good thing."

While Campus Crest has traditionally built on larger parcels, the company's two founders say they can see the day when they will have to build on smaller parcels of land to get closer to campus. As a result, they have spent time developing a prototype that can be built on a smaller parcel.

"We haven't changed our floor plans or our prototype; that's still a workhorse for us," Hartnett says. "We've added a new design for urban and dense options if we do come across those opportunities."

Athens, Georgia-based Landmark Properties has 3,500 beds under construction in various markets. The company has plans to break ground on another 1,200 beds over the next three months. For 2012-13, the company is delivering three projects: San Marcos, Texas; Tallahassee, Florida; and Raleigh, North Carolina. The company is underway for the 2013-14 year with projects in Tucson, Arizona, and Oxford, Mississippi. It also plans to break ground on a project in State College, Pennsylvania, in a few weeks.

Landmark is also venturing away from its signature cottage model with an urban infill student housing project near the University of Georgia in Athens. The six-story mid-rise building sits on a 3.5-acre site in downtown Athens, three blocks from the campus. The project also has a 650-space parking garage. Landmark has plans to develop more of these types of projects in the future.



(Left) The Dinerstein Companies is opening Sterling Highlander this fall at the University of California at Riverside. (Right) Dinerstein has evolved its student housing developments into highly amenitized student housing in urban settings. Pictured is the newly completed Sterling North Campus near the University of South Florida in Tampa.

"Sites are getting more difficult to find, as there is more competition," says Wes Rogers, president and CEO of Landmark Properties. "We want to do good student housing deals. We want to make sure that we are doing deals in markets and on sites that make good, fundamental sense. We don't want to limit ourselves to only cottage opportunities."

Landmark has expanded its team internally with more urban infill development expertise to accomplish this goal.

Rogers believes that while there is plenty of opportunity for development, some markets are overbuilt. Landmark has opted not to build in two markets recently

— Fayetteville, Arkansas, and College Station, Texas — where it felt there was too much supply coming online that would erode market fundamentals.

"Financing is available for good borrowers with good deals," says Rogers. "Lenders are looking for developers with a track record and a strong balance sheet, with the ability to put equity into the deals. My lenders are telling me that they are not lending to people who haven't done student housing developments before. That makes it more difficult for others to enter the space."

The Dinerstein Companies has four projects that are opening this fall. Near San Diego

State University, Dinerstein is opening Sterling Alvarado close to the SDSU campus. The project contains two retail shops and sits adjacent to a trolley stop that will take students to campus quickly. At the University of California at Riverside, Sterling Highlander will also open this fall. At the University of South Florida in Tampa, Sterling North Campus will open along 42nd Street. And the company will also open Sterling Fry Street at the University of North Texas in Denton.

While it has no plans to slow down, for fall 2013, the company will have one project coming online, as the company is under

contract to purchase two projects. Dinerstein concentrates its efforts close to campus, and sites are hard to come by at the type of growing college where it likes to develop.

"The development environment is challenging right now," says Brian Dinerstein, partner and president of Dinerstein Companies. "We have a very narrow box; we are only comfortable in certain regions and at certain schools. It is hard to find deals that make sense in markets that are still interesting to our group."

Dinerstein has seen overbuilding in some markets, but says this is part of the cycle. A few years ago, the company stopped developing in Lubbock, Texas, because it saw too much competition.

"There is going to be a problem with overbuilding in a variety of markets," says Dinerstein. "There is a lot of capital in the space, which is double-edged. We are excited to have more people in the business, but when there is a lot of money out there the discipline isn't always there."

Dinerstein remains focused on school size and enrollment growth when choosing sites. It also looks at fundamentals in the region, in terms of job and population growth, since they drive enrollment. Over the years, Dinerstein has changed its development type, molding it into an urban, highly amenitized product that generally has a small amount of retail on the ground floor. The company added this as an additional amenity to students. Its new project Sterling Fry Street at

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## DEVELOPMENT



Landmark Properties is developing a six-story urban student housing project in downtown Athens, Georgia, a few blocks from the University of Georgia.



EdR is developing 2400 Nueces on the campus of the University of Texas in Austin.

the University of North Texas has Chipotle and Potbelly Sandwich Works among the mix of retailers. The projects are walking distance to campus and have one-to-one bed to parking space ratio.

"We try to add all the bells and whistles, whether that means streamlined, modern furniture or bigger pool areas," says Dinerstein.

EdR is continuing to do a lot of development under its OnePlan program, which uses the company's balance sheet to develop on-campus properties. The company also has an aggressive development pipeline of off-campus projects as well. With the exception of a cottage project it is co-developing with

Landmark Properties in Oxford, Mississippi, all of the projects that EdR has announced are either on-campus or adjacent to a campus.

"Land is precious when it is in close proximity to a university," says Tom Trubiana, EdR's executive vice president. "It takes a significant amount of time [to develop]. We think that is important because students want that affiliation and closeness to the university."

All of the universities where EdR is developing have enrollments of 20,000 students or more. This fall, the company is opening a 320-bed project at Syracuse University. At the University of Alabama in Tuscaloosa, EdR is opening a 774-bed off-campus project that it

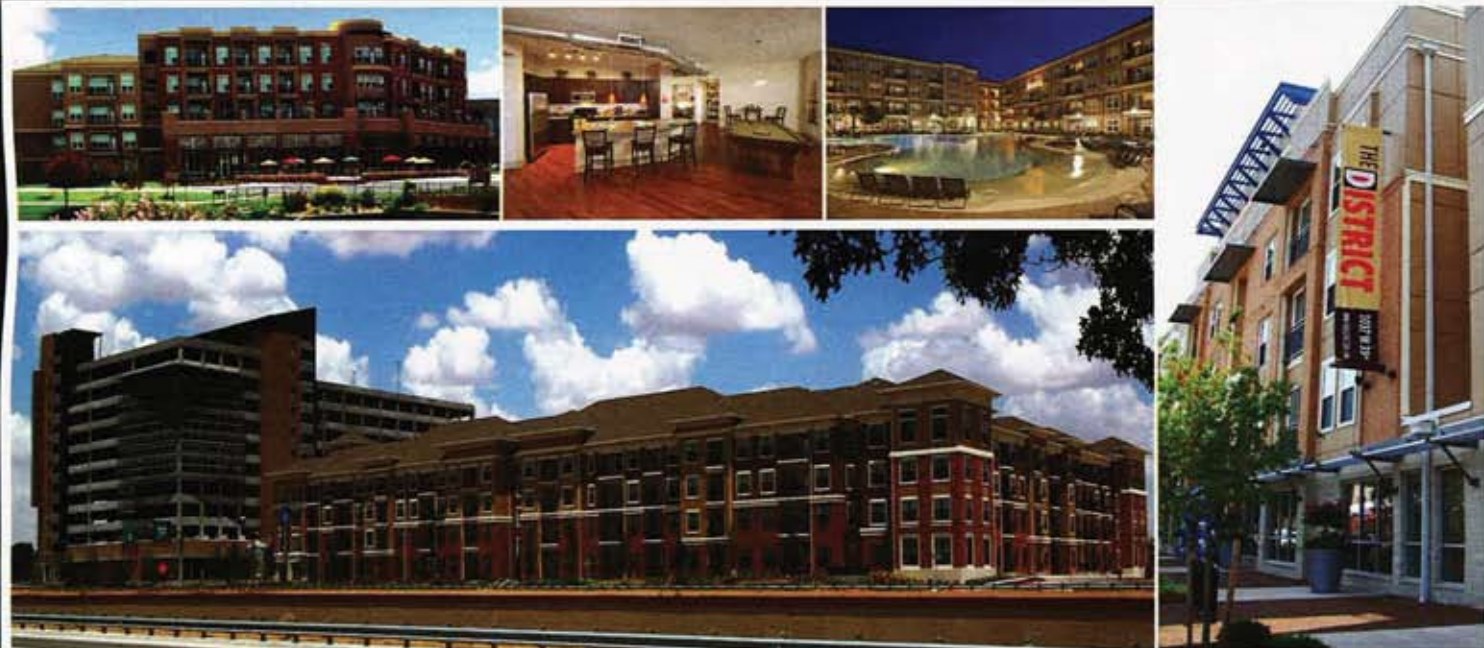
joint ventured with The Edwards Company. The company is also opening the first phase of Storrs Center at the University of Connecticut. The second phase of that mixed-use project will open in the fall of 2013.

In 2013, EdR will open a 622-bed project at the University of Texas called 2400 Nueces that is being built under its OnePlan program. EdR is also under development with a project at the University of Colorado, that is approximately 200 beds. The 668-bed cottage project EdR is developing with Landmark near Ole Miss will open in the fall of 2013. At Arizona State University's downtown Phoenix campus, EdR is under development with Concord



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Eastridge on a 609-bed high-rise project.

EdR is also developing several third-party projects on behalf of universities or their respective foundations in Pennsylvania. At Mansfield University, the company is developing a second phase of student housing that contains 684 beds that will open summer 2013. EdR has been awarded a second phase of student housing development at East Stroudsburg University that will contain 488 beds. The company is also developing a 500-bed project at Bloomsburg University. At Clarion University, EdR is developing 702 beds that it expects to open summer 2014. At Westchester University, the company is developing 663 beds in a second phase of development that will open summer 2014.

For smaller developers, experience also plays into the picture. Atlanta-based Chance Partners has garnered a reputation in the Tallahassee market as a developer of boutique projects of 120 beds or fewer. The company is currently underway with four projects, all of which are delivering this fall, including two near the University of Alabama. Chance also has four more projects scheduled to begin construction in November for fall 2013 delivery. It currently has a pipeline of five projects that it anticipates delivering in fall 2014, including Emory University in Atlanta, the University of Georgia in Athens and in Savannah, Georgia.

"Smaller sites tend to be less efficient from every aspect," says Judd Bobilin, principal of Chance Partners. "It is important that we are as efficient in all other aspects of development. We go through the same process as someone building a high-rise when we build a three-story building on 5,000 square feet of land in-town. The processes don't change, no matter the size of the project; it's just the duration."

Because of the size of its projects, Chance Partners sees most of its competition from the university it sits near, as well as small, local developers. Due to the quality of its projects, and its professional management, the company maintains a discerning edge over many competitors, though, says Bobilin.

"We know what the rental rates are in the market; what our construction costs are; and what our soft costs are," says Bobilin. "The big variable for us is land. That price is not critical as long as it fits

inside our matrix and gets to our return on cost. We are willing to pay for a good site if it is in a good location and it is within five blocks of campus."

That proximity to campus pays

off, says Bobilin. Chance Partners had a renewal rate at its operating properties in Tallahassee close to 80 percent for the 2012-13 academic year. **SHB**



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