

5 Tips To Avoid Going Bust In The Student Housing Boom

Law360, New York (December 05, 2012, 2:25 PM ET) -- While ground-up development has dried up in many sectors, off-campus student housing is one commercial real estate sector where development is booming. Unlike what other sectors are experiencing, there is both demand and capital for off-campus student housing developments, particularly ground-up development.

These market conditions have led many developers to enter the student housing development arena in hopes of catching the wave before it is too late. Before getting in too deep, though, developers should consider various factors that drive the market in order to try and ensure a successful venture. Below are some items to consider when deciding whether to enter into off-campus student housing development.

1. Research the Market

While demand for off-campus student housing has grown significantly over the past few years, not every state has seen enrollment increases that translate to growth in the number of students living off campus. In some cases, states have been able to provide sufficient dorm beds to meet the increased residency levels. Developers need to carefully research a target school to determine if it is anticipated to see a growth in enrollment and, if so, whether it has capacity for the increase, either existing or planned. Also, consider how much financial aid a state grants to students: the more money given to parents via financial aid, the more they'll have to spend on housing.

2. Know Where your Competition is Strongest, and Consider Going Elsewhere

Over the past 10 years, a group of well-capitalized, established developers has emerged in the student housing development field. More often than not, these developers are pursuing a first-tier market strategy, which targets colleges and universities that are the primary higher education institutions of a state. The student housing market is still fragmented, though, leaving opportunity for development in second-tier markets, many of which have just as many — if not more — colleges and universities that are growing. If you are considering entering a market which already has well established players, consider looking into under-built second-tier markets.

3. Location, Location, Location

Many successful student housing developers are of the mind that location is key, with the preference being to have a site located within 1.5 miles from campus. In certain instances, though, being beyond this magic circle may still work — such as if the product located close to campus is aging inventory. Larger parcels may also be more available as one gets further from campus, allowing for greater flexibility in the product type that can be developed. In addition, zoning may be less restrictive.

4. Amenities, Amenities, Amenities

Unlike in the “old days” where students simply expected a decent unit close enough to campus to walk and/or bike, Generation Y, the group also known as the millennial generation, has come to expect properties that feature high-end amenities, such as clubhouses, resort style pools and spas, community lounges, theaters, fitness centers and business centers. In addition, Gen Y’ers are looking for units that provide separate bathrooms paired with each bedroom, gourmet kitchens, expansive living areas, ample closet space and full-size washers and dryers.

5. Have a Great Asset Management Team

Unlike typical apartment or condominium development, student housing has additional layers of complexity because the number of lessees is often greater, plus many have no established credit and therefore require an additional form of guarantee, such as a parent. In addition, the “client satisfaction” issues are generally tougher because not only is one dealing with the tenant directly, but one often also has a very involved parent who has opinions regarding the state of site amenities, furniture, etc. More importantly, if one is new to the game, lenders may require an experienced manager to be on board.

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