

Special Research

R E P O R T

Marcus & Millichap

National Student Housing

First Half 2009

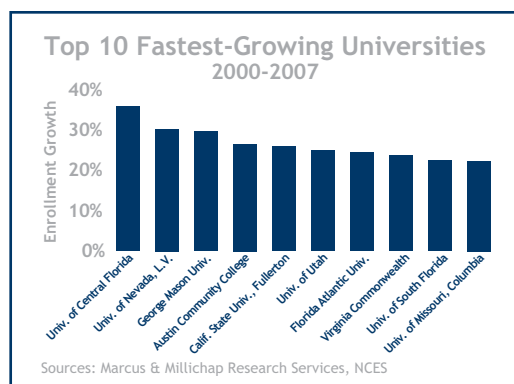
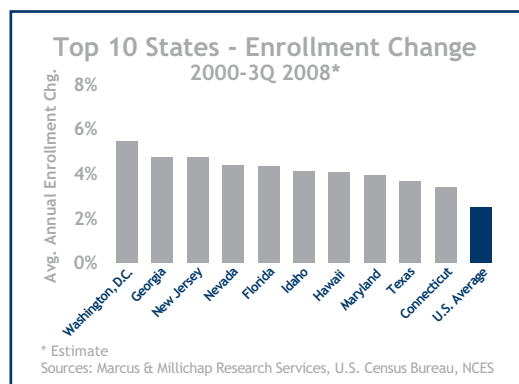
STUDENT HOUSING MAKING THE GRADE WITH INVESTORS

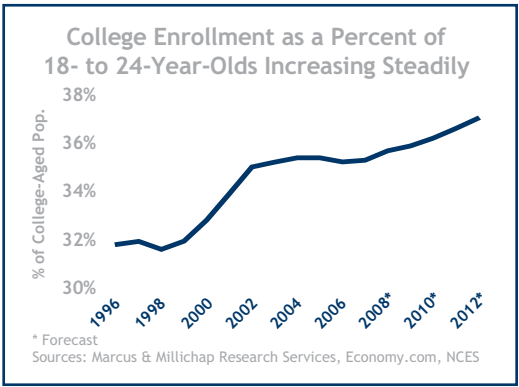
The student housing market continues to grow, despite a struggling economy. College enrollment remains on an upward trajectory and is expected to increase 8 percent over the next four years. Despite the current recession, more than 15 million additional degreed workers will be needed nationwide through 2012 to replace retiring baby boomers. This should further stimulate demand for higher education and, in turn, student housing. Another driver of student housing demand is the continued expansion of the college-aged population, which is expected to grow 4.2 percent through 2012. There are some pressures in the near term, however. The subprime meltdown and ensuing recession have taken a toll on private sector student loans, which has exacerbated the strain of education expenditures. An estimated 140 lenders have stopped making federal loans, while 40 private lenders have curtailed educational funding. Additionally, deflating home values, coupled with the tendency of baby boomers to rely on home equity loans for college funding, will make paying for school even more difficult. These trends could negatively impact the ability of off-campus housing operators to achieve solid rent growth in the coming year.

Due to high construction costs, most universities have been unable to keep up with mounting housing demand. Developers have responded with the delivery of more than 57,000 beds since 2000, while an additional 23,000 beds are forecast to come online by the end of 2009. Off-campus housing trends have become more upscale, as students now look for amenities typically associated with apartment living that rarely exist in dorm environments. These amenities include sand volleyball courts, basketball courts, fitness centers, movie theaters, tanning beds, video-gaming facilities, business centers, full-size washers and dryers, high-end furnishings, and study lounges. Builders also are tackling mixed-use student housing projects; University Village in Ann Arbor, for example, will combine 1,758 beds with over 16,000 square feet of retail space.

Despite heightened levels of construction, robust demand has kept vacancy from rising significantly, maintaining upward pressure on rents. Still, vacancy in student housing complexes has increased approximately 200 basis points over the past year to between 6 percent and 7 percent. Additionally, properties that traded in 2008 registered an average occupancy rate of 92 percent, compared with 95 percent in the preceding year. Rental rates, however, continue to climb and are currently up around 3 percent from one year ago. Depending on the number of beds in the unit, rental rates range from just below \$300 per bed for more modest quarters in tertiary locations to in excess of \$1,500 per bed for newer, well-appointed accommodations in primary markets.

Cap rates are now averaging 50 basis points to 100 basis points above levels posted a year ago. Cap rates for Class A student housing assets in primary markets have remained relatively stable during the past 12 months; however, there has been at least a 100 basis point rise for Class C properties in tertiary areas. As such, overall cap rates have ticked up to 7.2 percent. Highlighted by the \$1.2 billion, 67-property acquisition of GMH Communities by American Campus Communities (ACC), dollar volume for 2008 was up 27 percent over the prior year. Notwithstanding this sale, transaction activity, while off 35 percent from 2007, outperformed apartments overall last year. Average per-bed prices continue to hover in the mid-\$38,000 range, although many investors are now actively pursuing distressed assets.



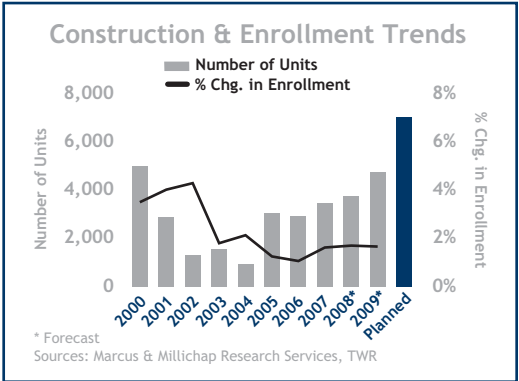


DEMOGRAPHICS

- ◆ The number of college-aged residents is projected to expand by almost 1 percent annually through 2012 to more than 52 million people, or 17 percent of the total U.S. population.
- ◆ College enrollment will continue to climb, increasing at an expected average annual rate of 1.5 percent through 2012. As such, more than 37 percent of the college-aged populace is forecast to be enrolled in post-secondary education institutions by that time, an uptick of 6 percent.
- ◆ **Outlook:** Demand for student housing will remain supported by growing college enrollment for the foreseeable future. Enrollment trends will be driven by higher graduate income levels and an expanding college-aged population.

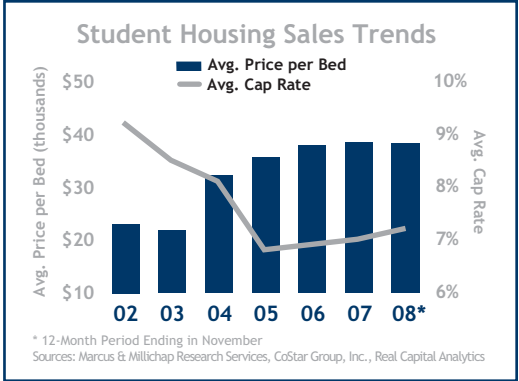
CONSTRUCTION

- ◆ Student housing construction has increased steadily over the past several years, with just under 3,800 units completed last year, an 8.4 percent increase from 2007 deliveries.
- ◆ Rising construction costs on traditional residence halls have precluded many universities from embarking on housing projects, paving the way for private developers to increase their presence. Total construction costs for residence halls have jumped 200 percent from 1998 to almost \$240 per square foot last year.
- ◆ Developers and owners are responding to student demand by offering luxury properties with amenities typically associated with Class A apartments. Mixed-use developments that contain both retail and residential components are also a prevailing trend in student housing.
- ◆ **Outlook:** Escalating demand for student housing will perpetuate the need for additional inventory. As such, developers are expected to remain active, with nearly 5,000 units slated for completion in 2009 and another 7,000 units in the planning pipeline.



SALES

- ◆ Sales activity has accelerated in recent years, as investors are increasingly venturing into niche products in search of solid returns. From 2004 to 2007, transaction activity jumped 63 percent, while dollar volume soared more than 90 percent. Public REITs and institutions, led by ACC's acquisition of GMH Communities, remain active in student housing investments, accounting for nearly 55 percent of all transaction activity over the past 12 months.
- ◆ Despite solid investor demand, prices have held firm, with the average currently at about \$38,000 per bed. This price, however, was brought down slightly by the ACC portfolio, which traded for approximately \$31,000 per bed. Excluding that transaction, the average price is nearly \$55,000 per bed. Cap rates have stayed relatively steady during the past 12 months. Cap rates currently range from 6.6 percent to 7.7 percent, depending on location and property class.
- ◆ **Outlook:** Investment activity should continue at a solid pace in 2009, although volume is not expected to reach the level recorded in 2008, notwithstanding another significant portfolio transaction. New financing products geared toward the sector are expected to further support investor demand.



REGIONAL OVERVIEWS

Northeast

- ◆ Over the past 12 months, sales activity has waned in the Northeast, with very few transactions closing. Prices, however, remain among the highest in the country at almost \$190,000 per bed. Cap rates in the region have held steady during that time at an average in the high-6 percent range.
- ◆ Student housing construction activity is down nearly 50 percent from last year, with developers bringing 436 units online in 2008. Last year's projected deliveries are still well above the average annual completion of 336 units between 2000 and 2007. Developers are forecast to add just 60 units to stock in 2009.

Southeast

- ◆ The Southeast continues to be the primary area of interest among student housing investors, with just under \$800 million in deals closing over the past 12 months. Cap rates are currently hovering in the mid-7 percent range, with the average price at approximately \$32,500 per bed.
- ◆ Developers delivered a total of 652 units in 2008, almost double the previous year's completions. Since 2000, however, new student housing has come online at an average of more than 1,000 units annually. An additional 1,042 units are scheduled for arrival in 2009.

Midwest

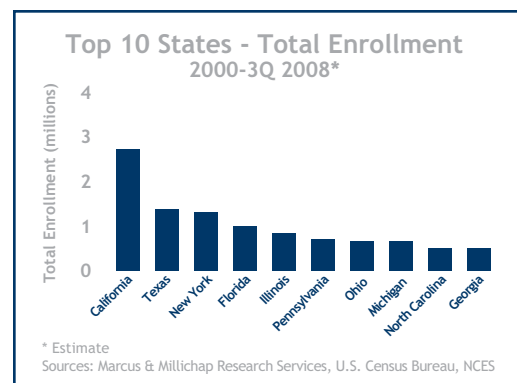
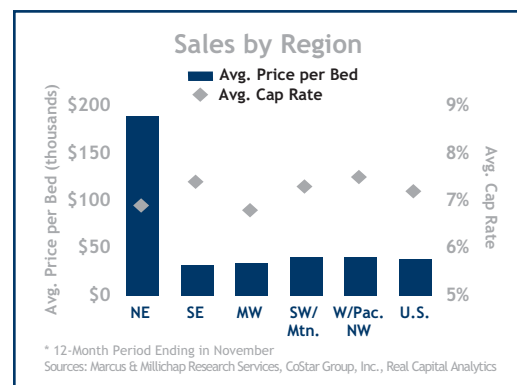
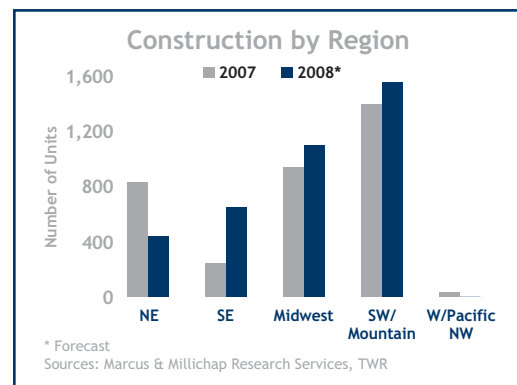
- ◆ Driven by deals in Illinois, Indiana and Ohio, nearly \$500 million in assets have traded in the Midwest over the past 12 months. Prices during this period averaged just under \$34,400 per bed, with cap rates in the 8 percent range.
- ◆ After averaging 370 units annually from 2000 through 2006, completions surged to almost 1,000 units in 2007, a trend that continued last year. Nearly 1,100 units were delivered in 2008, with another 540 units scheduled to come online in this year.

Southwest/Mountain

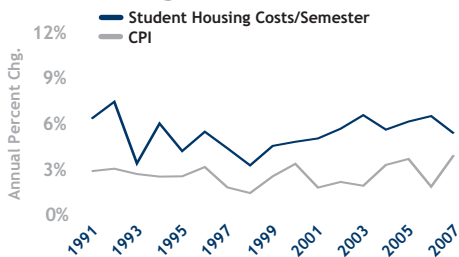
- ◆ Sales velocity remains solid in the Southwest/Mountain region, buttressed by robust activity in Texas, where approximately 75 percent of the \$400 million in sales have occurred in the past 12 months. Cap rates are approximately 7.3 percent, while prices currently average just over \$40,500 per bed.
- ◆ Development activity is accelerating in the Southwest/Mountain region, with builders delivering a nation-high 1,550 units in 2008. The pace of construction will likely continue to increase, with more than 3,100 units due for delivery this year.

West/Pacific Northwest

- ◆ Over the last 12 months, cap rates in the West/Pacific Northwest region averaged in the mid-7 percent range, while the average price was approximately \$41,000 per bed. The largest transaction for 2008 was the GrandMarc near the University of Riverside, which sold in July for \$45 million, or \$59,000 per bed.
- ◆ A lack of developable land and rising construction costs have stymied construction in the region, with builders expected to remain on the sidelines through 2009. Just 33 units have been delivered since 2007, although 233 units are currently in the planning pipeline.



Student Housing Costs per Semester Rising Faster Than CPI



Sources: Marcus & Millichap Research Services, Economy.com, NCES

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CAPITAL MARKETS

By WILLIAM E. HUGHES, SENIOR VICE PRESIDENT, MARCUS & MILLICHAP CAPITAL CORPORATION

- ◆ In December, the Federal Reserve slashed the fed funds rate to a record-low 0.25 percent, with a target rate of 0 percent to 0.25 percent. The Fed also promised it would use an array of new, unconventional economic tools to stimulate the economy.
- ◆ While credit markets remain tight, Fannie Mae and Freddie Mac have increased their market share for multi-family properties, adding much-needed liquidity to the market. The government has reiterated its commitment to the mortgage giants. Combined, the GSEs hold or back 36 percent of all outstanding multi-family mortgage debt, followed by commercial banks and CMBS. Final figures are not yet available for the second half of 2008, but midyear results show that the GSEs ramped up apartment mortgage origination by 66 percent from one year earlier.
- ◆ Lenders remain cautious, but debt capital is still available for quality student housing deals. Freddie Mac recently announced its Student Housing Mortgage, which is aimed at acquisitions and refinancing. The minimum loan amount is \$5 million, and terms run from five years to 10 years with current interest rates in the mid-6 percent range. An asset has to be no more than two miles from a college or university with a student population of at least 8,000 to qualify for the program. Freddie Mac used the Student Housing Mortgage in the fourth quarter acquisition of a 612-unit property in Lincoln, Neb.

RECENT STUDENT HOUSING SALES HIGHLIGHTS

Sale Date	Property Name	City, State	Sales Price	Beds	Price per Bed
Mar-08	University Estates	Austin, TX	\$51,500,000	1,548	\$33,269
Jun-08	Delaware Portfolio	Newark, DE	\$65,575,000	1,400	\$46,839
Feb-08	Campus Lodge	Tampa, FL	\$42,587,832	1,068	\$39,876
Feb-08	Reveille Ranch	Bryan, TX	\$37,489,500	972	\$38,569
Aug-08	Gramercy Green	New York, NY	\$275,000,000	950	\$289,474
Sep-08	West 10	Tallahassee, FL	\$43,837,500	876	\$50,043
Mar-08	Reserve	San Antonio, TX	\$40,000,000	828	\$48,309
Aug-08	The Verge	Sacramento, CA	\$36,425,000	792	\$45,991
Jul-08	GrandMarc at University Village	Riverside, CA	\$45,000,000	760	\$59,211
Oct-08	Dwight Lofts	Chicago, IL	\$75,000,000	694	\$108,069
Jul-08	The Courtyards	Lexington, KY	\$17,400,000	676	\$25,740
Aug-08	La Cantera Place	San Antonio, TX	\$29,920,000	624	\$47,949
Aug-08	Cambridge at Tyler	Tyler, TX	\$28,000,000	588	\$47,619
Jan-08	Campus Edge Lafayette	Lafayette, LA	\$26,200,000	524	\$50,000
Mar-08	Sterling by the River	West Columbia, SC	\$26,000,000	476	\$54,622
May-08	Aspen Court	Macomb, IL	\$21,850,000	467	\$46,788
Sep-08	Aberdeen	Lawrence, KS	\$24,000,000	433	\$55,427
Aug-08	Rockdell Place	Fairborn, OH	\$14,080,000	384	\$36,667
Nov-08	Woodlands of Statesboro	Statesboro, GA	\$14,400,000	368	\$39,130
Mar-08	Campus View	Columbia, MO	\$15,500,000	268	\$57,836

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Sales data includes transactions valued at \$500,000 and greater unless otherwise noted. Sources: Marcus & Millichap Research Services, Bureau of Labor Statistics, CoStar Group, Inc., Economy.com, Property & Portfolio Research, Real Capital Analytics, Reis, TWR/Dodge Pipeline, U.S. Census Bureau.