

LaSalle Investment Management Discusses Student Housing Investment

In May, **Geoffrey Dohrmann**, publisher and editor-in-chief of *The Institutional Real Estate Letter*, met with **Allan Swaringen**, managing director and president of the *Excelsior LaSalle Property Fund*, and **William Maher**, director – North American research and strategy, at **LaSalle Investment Management**. The following is an excerpt from that conversation.

Dohrmann: *How long has LaSalle been investing in student housing?*

Swaringen: We've been studying the overall student housing sector for about four years, but were not able to find the right portfolio opportunity until the end of last year, when we closed on our first student housing investment on behalf of our *Excelsior LaSalle Property Fund*, an open-ended core fund that I oversee. This portfolio transaction consisted of six near-campus student housing apartment communities located near flagship state universities in Florida, Georgia, Texas, Missouri and Louisiana.

Dohrmann: *Why do you see student housing as a good strategy at this time?*

Swaringen: We are a research- and strategy-led firm, and our in-house research and strategy group has, for a long while now, advocated on behalf of the student housing sector's fundamentals, attractive risk-adjusted returns and recession-resistant characteristics. In many ways, we view student housing as having similar portfolio characteristics to medical office investments, another property type that we moved into ahead of a number of our competitors. These sub-sectors — student housing and medical office — are similar in that they can add diversification to a portfolio because their performance is tied to factors other than the health of the overall economy, i.e., the health and growth of enrollment at a university for student housing or the growth of a hospital campus for medical office buildings.

Dohrmann: *What exactly are the sector's fundamentals that make it so appealing?*

Swaringen: It's a compelling story from both the demand and supply sides. Our research group thinks growth characteristics and tenant demand will remain healthy for a number of years primarily due to favorable demographic trends.

Maher: There is a swell of echo baby boomers now reaching college age, and that cohort will see sustained growth for five to 10 years based on macro population data. Combined with a greater percentage of young people attending college, this will translate into strong national enrollment trends. The National Center for Education Statistics predicts an increase of 1.5 million college students between 2005 and 2012. Finally, the average age of college and university students is increasing as more students work before



Allan Swaringen is a managing director of LaSalle Investment Management. As the fund manager for the *Excelsior LaSalle Property Fund*, a privately offered, individual investor-focused fund created in partnership with U.S. Trust/Bank of America, he serves as the leader of the investment team and is responsible for all of the fund's finance functions, along with overseeing its strategic direction. Swaringen also serves as portfolio manager for the LaSalle Investment Company funds, the firm's global fund of funds. Since joining the company in 1998, his responsibilities have included marketing and client services as well as structuring, negotiating and closing many of the firm's most successful real estate investment funds.



Bill Maher is an international director and head of North American Investment Strategy for LaSalle Investment Management. Based in Baltimore, Maher develops real estate investment strategies for pension funds and other institutional clients and provides research and strategic advice to LaSalle's Baltimore-based Real Estate Securities group. He serves on LaSalle's North American Investment Committee, which oversees investments in Canada, Mexico and the U.S. Maher received a Masters degree in Urban Planning from Harvard University's Kennedy School of Government and B.A. in Economics from Williams College. He is active in numerous industry organizations including the Real Estate Roundtable, ULI, ICSC and RERI, and serves on the Williams College Real Estate Investment Committee.

school or just take longer to finish their coursework (sorry parents). These older students often prefer not to live in a traditional dormitory.

Dohrmann: *What about the supply side?*

Swaringen: The supply side also looks favorable for student housing, particularly those properties that are close to university campuses. First, on-campus housing stock at most larger state universities is outdated and often times inadequate to meet the growing student population's needs. Many university dormitories were built more than 30 years ago and can only accommodate a small percentage of total student enrollment. Second, many universities are making strategic decisions to exit the housing business. Faced with land constraints and tighter operating and capital budgets, many universities are opting to focus instead on building classrooms and

research facilities, and they are leaving it up to the private sector to provide housing. This should bode well for private apartment communities located near campus. From a location perspective, you don't need to be within walking distance to campus, but you should ideally be close to public transportation so that students can easily get to and from class. We even offer shuttle service at a few of our properties.

Maher: A large number of newer fast-growing universities, particularly in the Sunbelt, have very limited university-owned student housing. For example, Arizona State University and the University of California, Riverside, have on-campus housing for less than 20 percent of enrolled students.

Dohrmann: *Could you tell us about the properties you acquired?*

Swaringen: All six properties are located near major state universities, which we felt was important as a long-term demand driver. The properties are also truly state-of-the-art. They were all constructed within the past few years and include extensive amenity packages, including swimming pools, volleyball courts, resident lounges, workout rooms, computer labs, study rooms, in-unit washer/dryers and flat-screen TVs. The community-style layouts and generous amenities make these properties feel more like resorts than the crowded dormitory rooms that most of us lived in when we went to college. Also, at our properties, each student has his or her own private bedroom and bathroom within the two- to four-bedroom suite that is separate from the shared living areas. Teenagers today are used to having their own rooms, and so we see offering this privacy as an equally important feature.

Dohrmann: *In what other ways is student housing unique?*

Swaringen: Student housing is a subset of multifamily apartments, but there are several factors that make it different. For one, the leasing markets are driven almost entirely by local universities, much as medical office buildings are often supported by the nearby local hospital campus. These factors make student housing somewhat more specialized to underwrite. Further, because the most important demand generator is the nearby college or university, we found ourselves in markets that otherwise would not have been considered as typically institutional quality. For example, we like student housing in Gainesville, Fla., near the University of Florida, but would not likely buy any other product types in that market.

Dohrmann: *Are student housing assets difficult to manage?*

Swaringen: Student housing management takes a specialized set of skills and is by its nature very intensive, hands-on. It also includes an aspect of creating a community and social environment that is attractive to today's student residents. Leases are typically "by the bed" instead of "by the unit," so there are more leases to track. Nearly all of the leases

expire on the same academic schedule at the end of July or early August. This leaves a critical two-week period every year that in the industry is known as "turn." During turn, nearly every unit in the property needs to be cleaned, painted, inventoried and readied for the incoming students arriving later in August. This takes enormous coordination between management and local contractors to transition successfully. Leasing is different, too. You have to market the property to both the student and the parent, since it's the parent who is signing the guarantee and often writing the checks each month.

Dohrmann: *What is your overall strategy for student housing assets?*

Swaringen: From the outset, we saw this investment primarily as a diversification play that we're confident will deliver stable income characteristics with the potential for inflationary or better growth. The core open-end fund that I manage was previously underweighted in the multifamily sector, and we viewed this student housing portfolio investment as a unique, efficient opportunity to bring our allocation more in line with NCREIF, our benchmark. This collection of properties probably would have taken years to reconstruct on a one-off basis. The higher income yields relative to standard multifamily were also a plus, as we are an income-oriented fund paying a quarterly dividend.

Dohrmann: *Did you make any changes when you acquired the portfolio to increase income?*

Swaringen: Upon acquiring the properties, our first move was to change on-site property management and bring in a specialist student housing operator with a national platform. Going forward, we see opportunities to create efficiencies on the expense side and to aggressively push rents in certain cases.

Dohrmann: *What is your exit strategy?*

Swaringen: We plan to be a long-term holder and like the way these student housing assets fit within our broader portfolio from an income-growth and diversification perspective. When it eventually comes time to sell, we expect there will be a deeper and more liquid investment market in the sector as other institutional investors start to come on board. ❖

CORPORATE OVERVIEW

LaSalle Investment Management is a wholly owned subsidiary of Jones Lang LaSalle (NYSE: JLL) and is one of the world's largest real estate investment managers, with approximately \$50.4 billion of assets under management.

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