



CORVIAS TAKES CONTRARIAN APPROACH TO STUDENT HOUSING SECTOR

FUNDS ARE EXPLORING NEW PARTNERSHIPS TO PROVIDE STUDENT ACCOMMODATION THAT MEETS THE NEEDS OF STUDENTS AND THE EDUCATION SECTOR. **SHERRY HSIEH** REPORTS

Corvias Campus Living is taking a different approach to the student housing sector, which has been trending toward luxurious off-campus accommodation for the undergraduate set. The fund manager, part of East Greenwich, R.I.-based Corvias Group, has joined forces with the University System of Georgia for a long-term partnership to build and manage on-campus housing that has more traditional—and more austere—amenities.

The \$548m, 65-year partnership includes plans to develop 3,683 new beds and manage 6,195 existing beds of on-campus housing for nine institutions within the university system, with a fall 2016 delivery for the new units. "The goal is to support their mission of education, and we try to provide a solution to better student housing that helps students focus better on their study," said Kurt Ehlers, managing director of Corvias Campus Living.

The company is financing its activity via a private bond placement with insurance companies and pension funds.

The transition to student housing

The initiative stems from the firm's inception in 1998 as Picerne Military Housing, and Corvias has found the transition to student housing to be a smooth one. "Military housing faces the same challenges that student housing is facing today, such as aging infrastructure, maintenance backlog and competing capital constraint," Ehlers said.

Corvias uses a public-private model in which it is responsible for infrastructure, including financing, design, program development, construction, asset management and facilities maintenance over the lifecycle of the partnership. Schools, meanwhile, are responsible for resident services—setting rents, rent collection, housing assignments, residence life and marketing. "We partner with institutions on on-campus housing projects," Ehlers said.

Observing that on average, 60% of a school's infrastructure is over 25 years old—a maintenance backlog of \$92 per gross square foot—Corvias sees the public-private model as leveraging private sector's capital and development expertise to quicken the modernizing or construction of student housing, Ehlers said.

The firm's first project, Summerfield Square, was with the Dothan, Alabama-based Alabama College of Osteopathic Medicine. That partnership, which has a 50-year life, operates on a much smaller scale than its partnership with University of Georgia. Summerfield Square, which includes 144 one- and two-bedroom units, also has 10 acres of amenities such as a playground, communal kitchen, swimming pool, basketball court, barbecue area and fitness center. Corvias thinks amenities like these are part of a better



PROGRAM PARTICIPANTS

UNIVERSITY OF GEORGIA CAMPUSES PARTICIPATING IN THE PROGRAM

- Abraham Baldwin Agricultural College
- Armstrong State University
- College of Coastal Georgia
- Columbus State University
- Dalton State College
- East Georgia State College
- Georgia Regents University
- Georgia State University
- University of North Georgia

THE GOAL IS TO SUPPORT THEIR MISSION OF EDUCATION, AND WE TRY TO PROVIDE A SOLUTION TO BETTER STUDENT HOUSING THAT HELPS STUDENTS FOCUS BETTER ON THEIR STUDY

KURT EHLERS, CORVIAS CAMPUS LIVING

holistic solution for the long-term, Ehlers said.

As for the upscale building trend, popular across off-campus student housing communities today, Corvias does not feel the current luxury student housing model is necessary or effective in providing students with an environment to impact their grade point average and be successful in school. In addition to turning off tuition paying parents, luxury amenities like resort-style pools and indoor golf simulators are simply unsustainable, expensive and unrealistic for on-campus housing.

On- and off-campus student housing

There is a substantial difference between operating on- and off-campus student housing, according to panelists at a breakfast briefing hosted in March by REFM sister publication *Real Estate Finance & Investment*. Off-campus housing providers are catering to a different segment of the market and have a single, common factor that will make them successful that is in some ways more important than amenities—proximity to campus, said Bruce Batkin, CEO of Terra Capital Partners. “You are always worried about some-

one building a newer, better student housing nearer or on campus,” added Ray Potter, a managing director of advisory R3 Funding.

Factors to consider when investing in the sector are university size and reputation, academic program, enrollment and historical operation of the property. While the universities with the best reputations will continue to thrive, many secondary and tertiary schools may be affected by a rise in two-year community college and online programs, Potter noted, adding that schools with more than 10,000 full-time students are the best bet for new developments.

Against this backdrop, student housing is gaining traction as a more mainstream asset class. “In the real estate world, we are seeing a diversification, and more interest in niche market outside traditional sectors such as office and retail,” commented Andrew Moylan, head of real assets products at Prequin. Compared to buying an apartment at a 6% cap rate, student housing is at a 7-7.5% cap rate, Potter said. “There are risks, it’s a one-year lease and if you don’t have people sign up by late spring, you lose a whole year. If you can build it at the right

price with the right location and amenities, you can ‘get it right,’ he said.

Getting it right means different things for different players, and Evan Denner, CIO of Campus Evolution Villages that focuses on student housing management, described his business as a mix of multifamily, hospitality and retail. “We are providing a place for residents to live and a set of amenities for them to enjoy. Like Apple’s product experience, we are providing them with an experience similar to when they are at a hotel,” he said.

Campus Evolution Villages owns and manages 22 assets at 20 distinct universities totaling approximately 10,000 beds. In addition to emphasizing the quality of the experience, Denner noted that all of CEV properties are very close to the universities. Many are less than a mile away from campus and even more are directly across from campus. Most residents have individual bedrooms and bathrooms for each student, with additional amenities like clubhouses, gyms and swimming pools.

Returns to investors are also unique for Corvias’ model, which returns net cash flow into the partnership and charges a fixed, performance-based fee as compensation, Ehlers said, adding that he believes this will be the model for more programs nationally. Edr, another student housing-focused owner, completed a similar project for the University of Kentucky. Phase I added 600 beds for honors students in the honors program at Kentucky in 2013, and Phase II added 2,000 beds for 2014.

“We provide a solution to colleges and universities that need short- and long-term strategies to improve their on-campus student residences, but do not have the financial capacity,” explained Ehlers. “We are in talk with about 15 campuses to implement the program.” □