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Despite Resilience, Student Housing Still Vulnerable

By Jennifer Duell Popovec

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Bill Bayless

DALLAS-Experts at RealShare's Student Housing Conference agree the sector is "recession resilient," but warn that decreased property valuations could cause problems for owners and opportunities for investors.

The RealShare Student Housing Conference is produced by ALM's Real Estate Media Group. Nearly 400 people attended the event at the Four Seasons Resort and Club in suburban Dallas to hear industry experts discuss student housing trends.

During today's keynote speech, Peter Katz, senior vice president of investments for Marcus & Millichap, emphasized the fact that the student housing sector is in much better shape than other commercial real estate sectors. It is not recession resistant, he contends, but rather recession resilient – meaning that it is impacted by economic downturns, but bounces back more quickly.

"The economic downturn has taken a small toll, but occupancy and rents have remained stable," Katz notes. To that end, the sector has fewer assets that are distressed on the property level.

Like other property types, however, student housing valuations have fallen during this recession. "There has been a degradation of value from an appraiser's perspective that will result in downward pressures in valuations," Katz adds.

Decreased valuations could create difficulties for owners who need to refinance their existing loans, particularly borrowers who have CMBS loans. Over the next three years, more than \$1 billion of student housing CMBS loans will expire and need to be refinanced, according to Katz.

Many owners will find themselves with performing assets – properties with strong NOI and stable occupancy – but facing distress within their capital stack, Katz predicts. "There are going to be a lot of situations where the capital stack chokes the borrower," he warns.

In those scenarios, CMBS special servicers will end up taking back the student housing assets and recasting loans at lower values, providing an opportunity for investors to acquire quality student housing assets at a discount.

However, Freddie Mac and Fannie Mae are actively providing debt for performing student housing properties, and investors might be able to refinance their properties as long as they're willing to pay down the debt. "I think it really comes down to whether you're willing and able to write a check," says David Adelman, president and CEO of Campus Apartments.

Adelman participated in a panel called "Fact or Fiction-Part II" along with Ryan Reid, national director of student housing for CB Richard Ellis, and Bill Bayless, president of American Campus Communities Inc.

The panelists agree that they have not seen much distress in the student housing industry from the credit crunch. According to CBRE, only \$600 million worth of student housing properties are in default – a much smaller number than other property types.

However, Bayless says there are a number of equity investors that are looking to offload underperforming student housing assets, creating even more opportunities for investors focused on value-added acquisitions. "I can't wait for those properties to come to market," he adds.

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