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Student Housing: A New Era in Campus Living

Trends in Public-Private Student Housing Development

October 8-9, 2007

Agenda

- Delivery Methods
- Public-Private Partnerships
- Partnering Trends
- Developer Insight
- Participating Developers

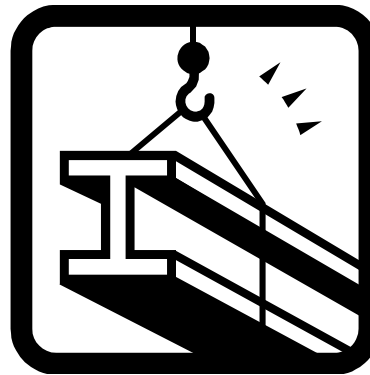


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Delivery Methods

Delivery Methods

- Delivery Method: Process by which the student housing project is programmed, designed, and constructed, including the allocation of responsibilities and liability



Delivery Methods

- Historical Perspective

- Master Builder

- Owner's agent
 - Designer
 - Contractor

- Early 20th Century

- Competitive bidding
 - Design/bid/build

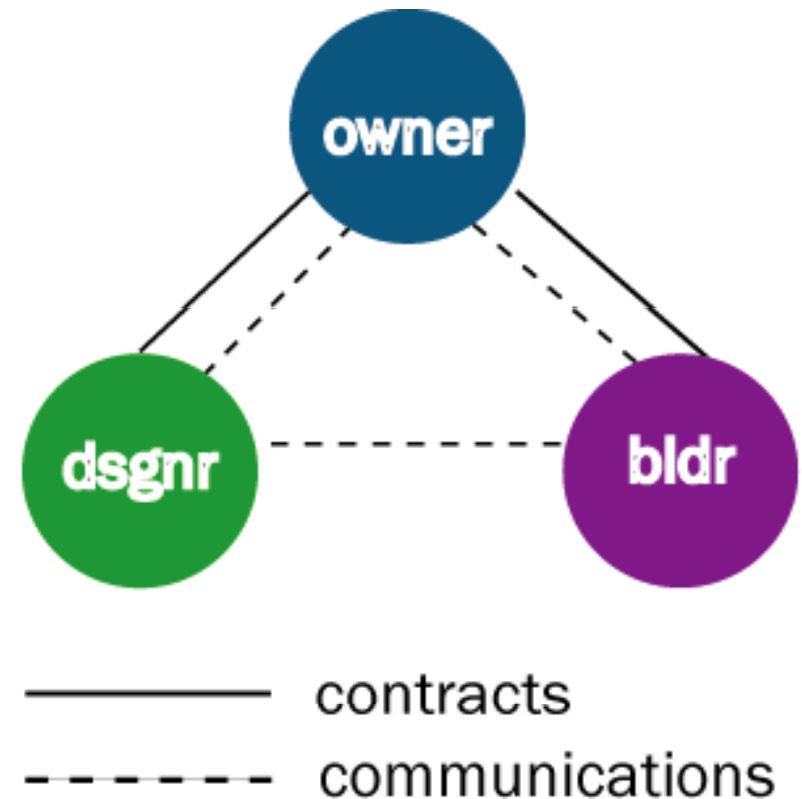
- Later 20th Century

- Alternative delivery strategies
 - Swing back toward more collaborative approach



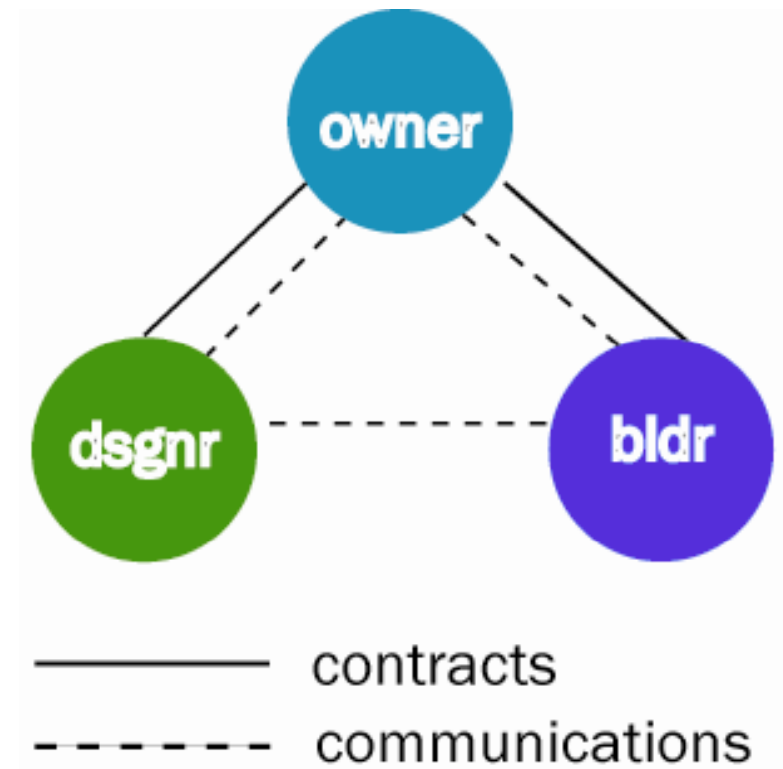
Delivery Methods

- Design-Bid-Build
 - Owner selects architect on qualifications
 - Owner selects builder through competitive bidding process based on completed construction documents
 - Pros: widespread use, clarity of roles, ease of management
 - Cons: lengthy process, lack of full collaboration between architect and builder, relatively high number of change orders



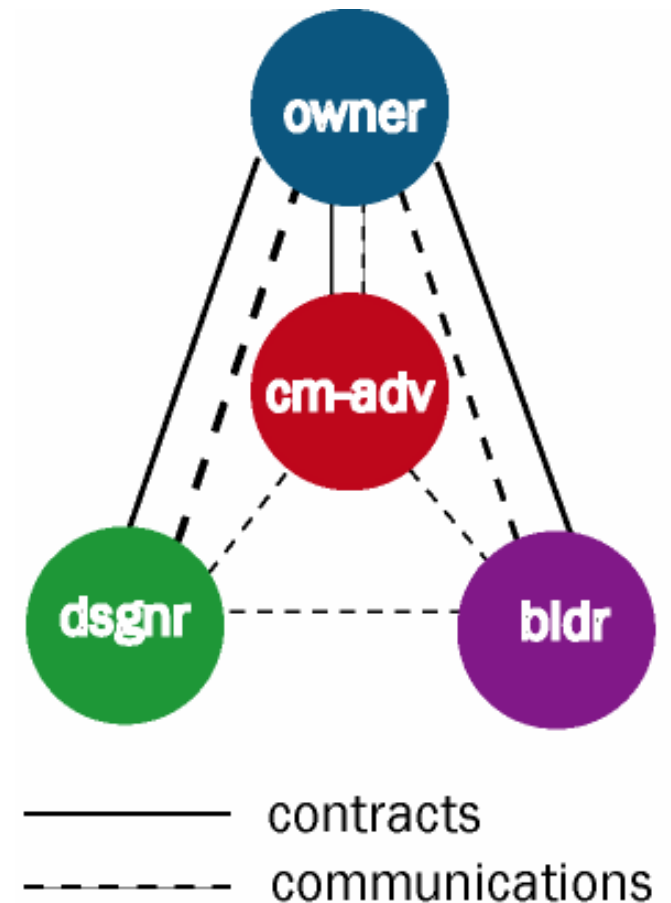
Delivery Methods

- Negotiated Delivery
 - Owner brings in builder on a negotiated basis during design
 - At completion of design, builder competitively bids subcontracts
 - Used most frequently by private institutions with architects and builders that have worked together before
 - Pros: increased collaboration reduces change orders and prospect for litigation
 - Cons: less formal, may not satisfy competitive bidding rules



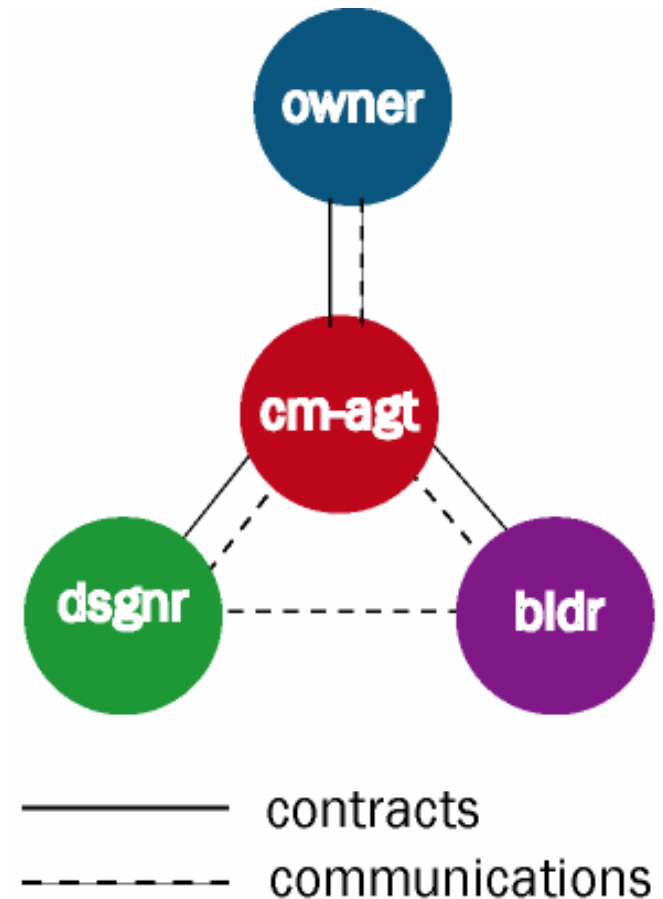
Delivery Methods

- Construction Manager as Advisor
 - CM serves as advisor to owner during both design and construction
 - Architect and builder maintain traditional roles
 - Pros: direct contractual relationships, CM input, continuous oversight
 - Cons: length of linear process, confusion over traditional roles, added cost of additional consultant



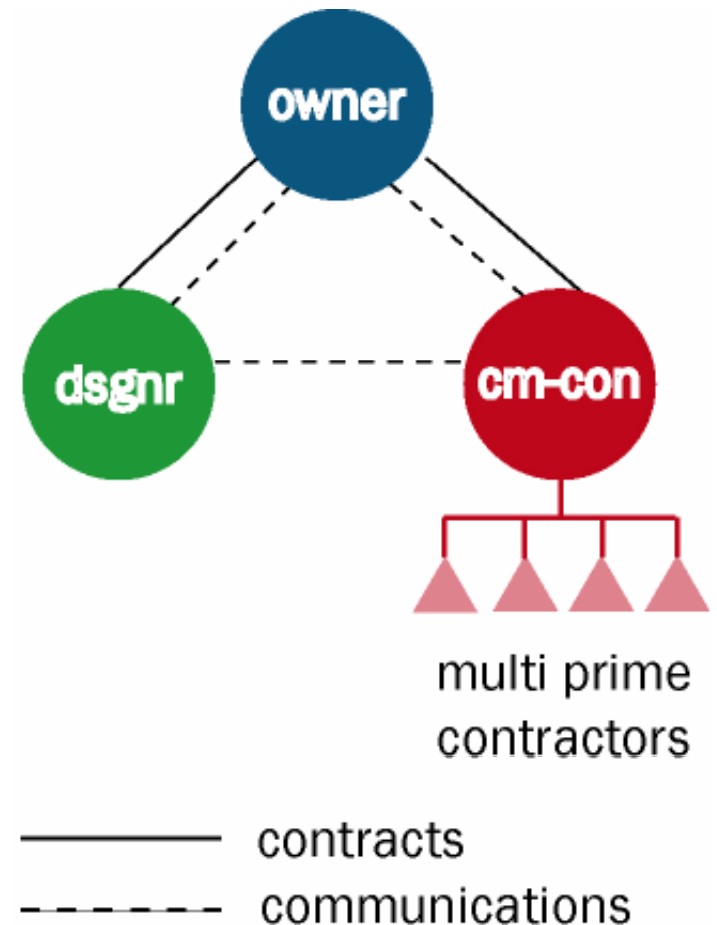
Delivery Methods

- Construction Manager as Agent
 - Owner transfers authority to CM
 - CM contracts with architect and builder
 - CM assumes full financial responsibility but does not guarantee completion and cost of project (builder does)
 - Pros: potential choice for absentee owner or one who does not want day-to-day involvement
 - Cons: inability of owner to communicate directly with architect and builder, additional cost of CM, overlapping roles



Delivery Methods

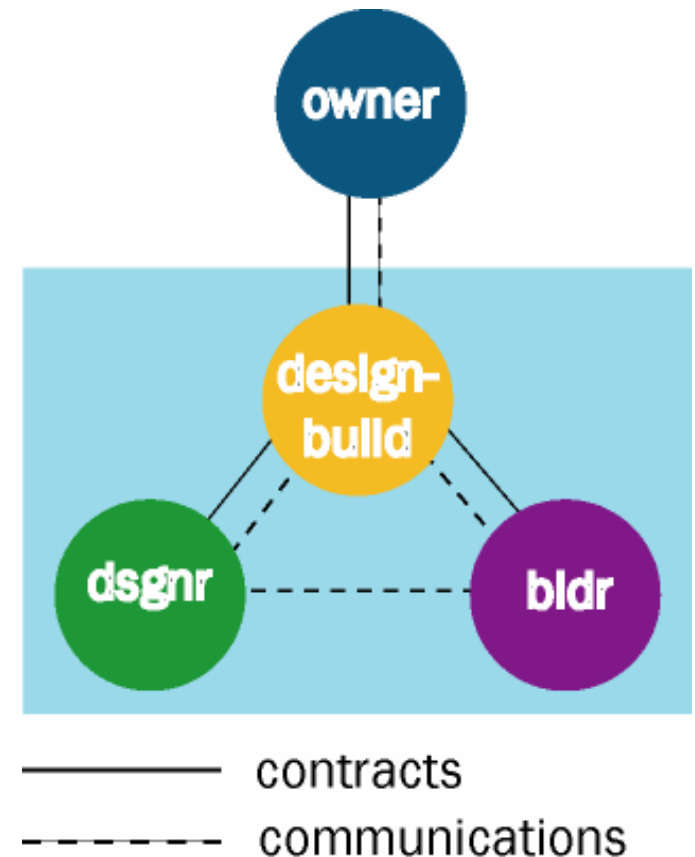
- Construction Manager as Builder
 - CM hired prior to completion of design to act as advisor and then builder
 - CM guarantees completion and cost ("CM at risk" or "CMR")
 - CM selected on competitive basis or qualifications
 - Pros: early CM input, careful oversight, early commitment on costs, potential to shorten time
 - Cons: potential for adversarial relations, change orders/ extensions (multiple primes), owner's inability to effectively control quality



Delivery Methods

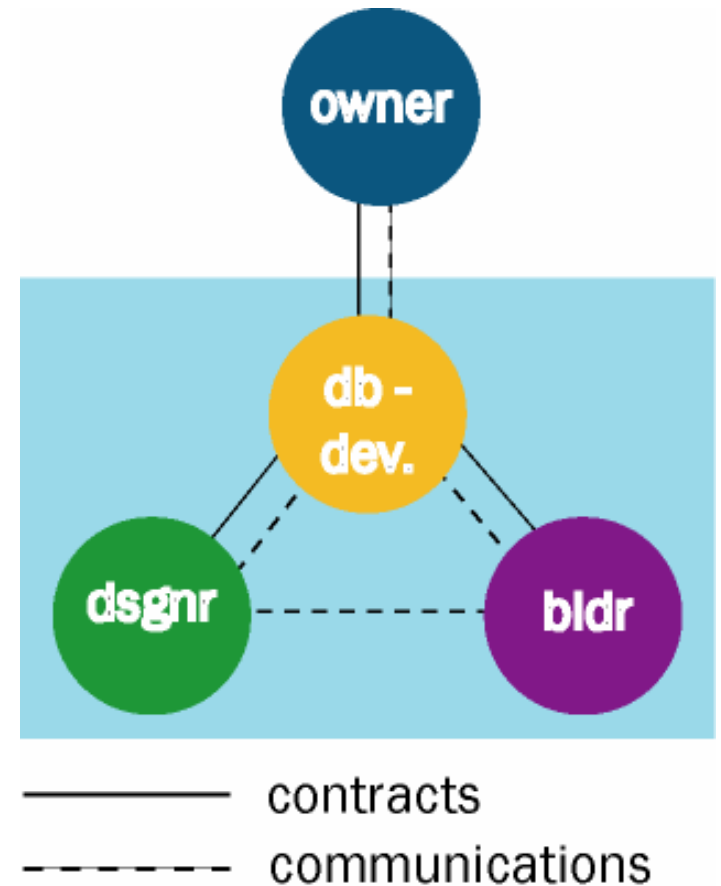
■ Design-Build

- Owner contracts with single entity (design-builder)
- DB may be one firm, consortium, or joint venture
- Selection based on qualifications, cost, or combination
- Pros: faster development process, sole source simplifies owner's role and reduces risk, change orders, and delays
- Cons: complexity, lack of direct connection with architect, potential for value engineering/quality issues



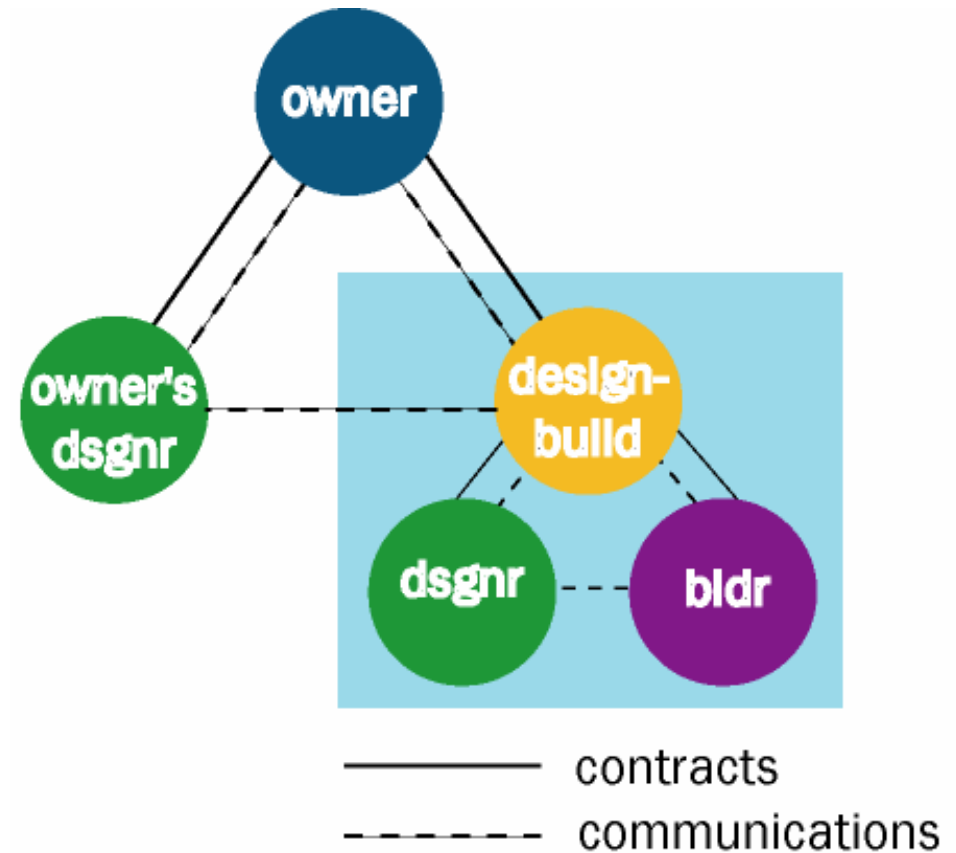
Delivery Methods

- Design-Builder as Developer
 - Similar to DB, but includes services such as financing and site acquisition (“turnkey”, “sale-leaseback”)
 - May involve transfer of title to real property
 - Team may include operator
 - Pros: full services provided
 - Cons: taxable financing, complicated selection process



Delivery Methods

- Bridging Approach
 - Owner hires architect to develop preliminary design and serve as owner's rep during development
 - Documents used to solicit competitive bids or negotiations
 - Pros: focused attention on design issues, competitive bidding, sole source responsibility for completion
 - Cons: complexity, need for owner involvement, potential conflict between architects



Delivery Methods

- Comparison of Methods
 - **Unit cost:** DB projects at least 6.1% less than DBB projects and 4.5% less than CMR projects
 - **Construction speed:** DB projects were 12% faster than DBB projects and 7% faster than CMR projects
 - **Delivery speed:** DB projects were 33.5% faster than DBB projects and 23.5% faster than CMR projects
 - **Cost growth:** DB projects were 5.2% less than DBB projects and 12.6% less than CMR projects
 - **Schedule growth:** DB projects were 11.4% less than DBB projects and 2.18% less than CMR projects

Source: Comparison of US Project Delivery Systems, Mark Konchar and Victor Sanvido, Journal of Construction Engineering and Management, November/December 1998

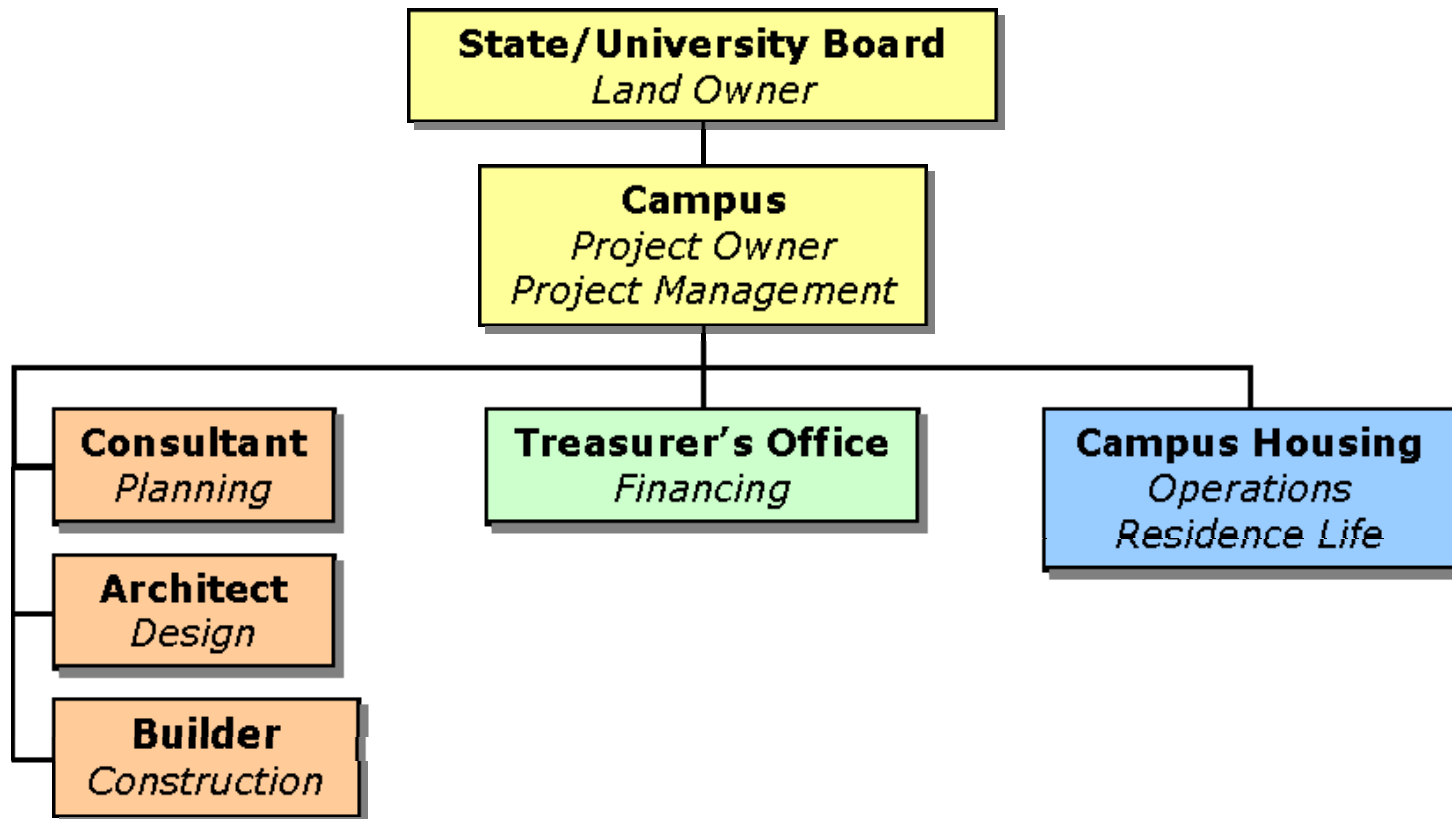


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Public-Private Partnerships

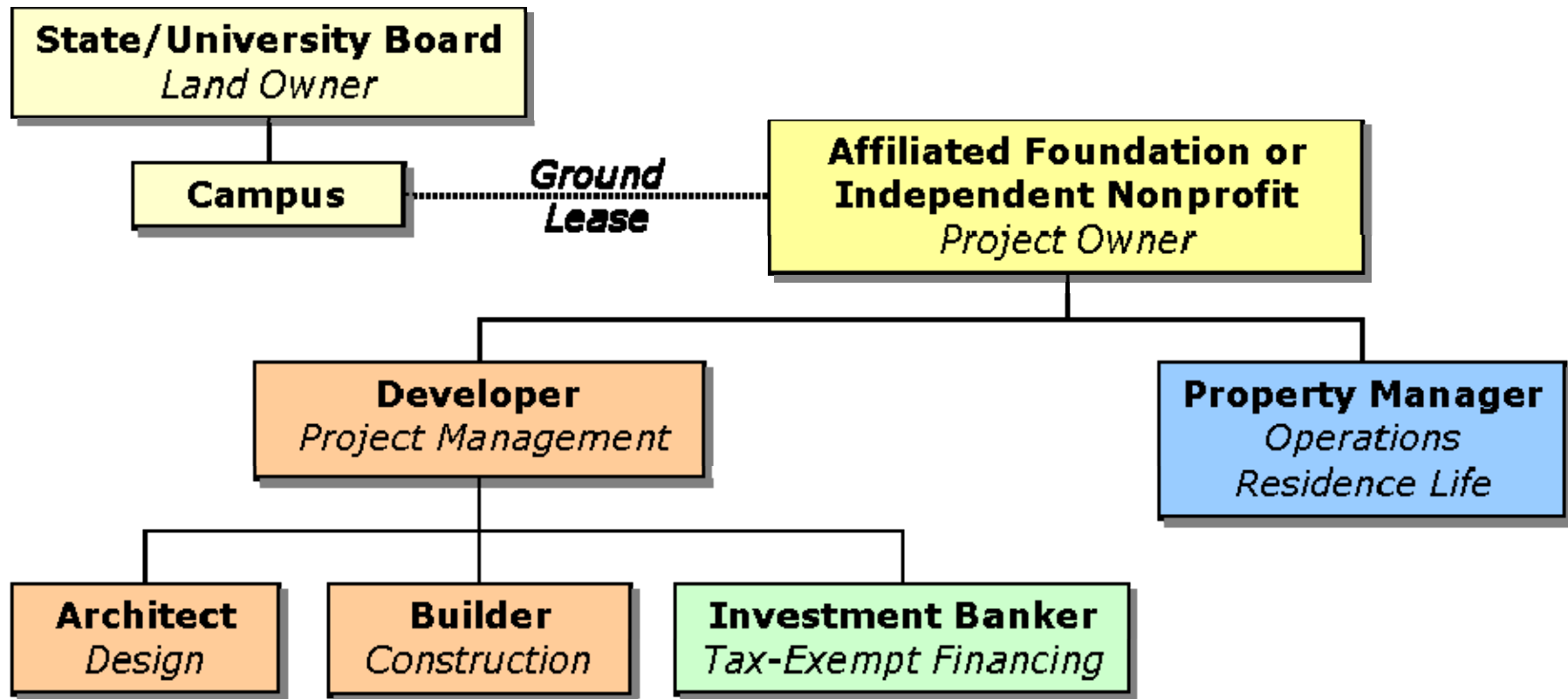
Public-Private Partnerships

- Traditional Structure



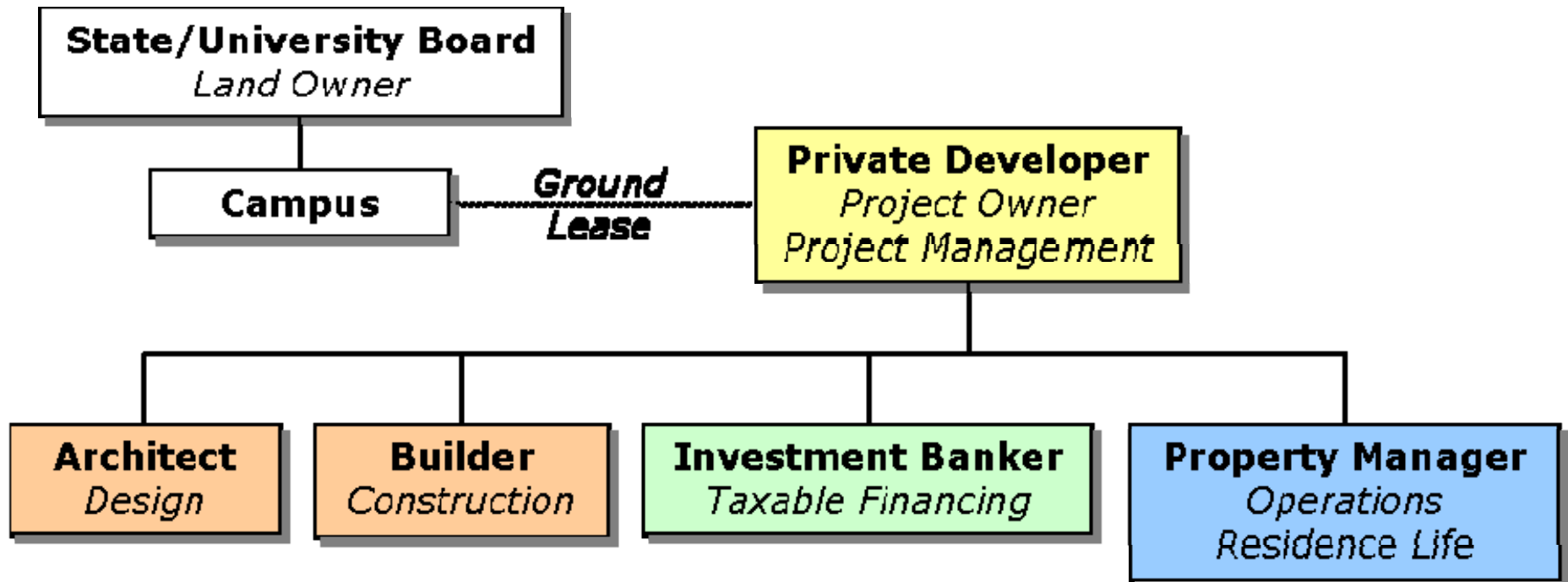
Public-Private Partnerships

- Nonprofit Structure



Public-Private Partnerships

- Privatized Structure



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Partnering Trends

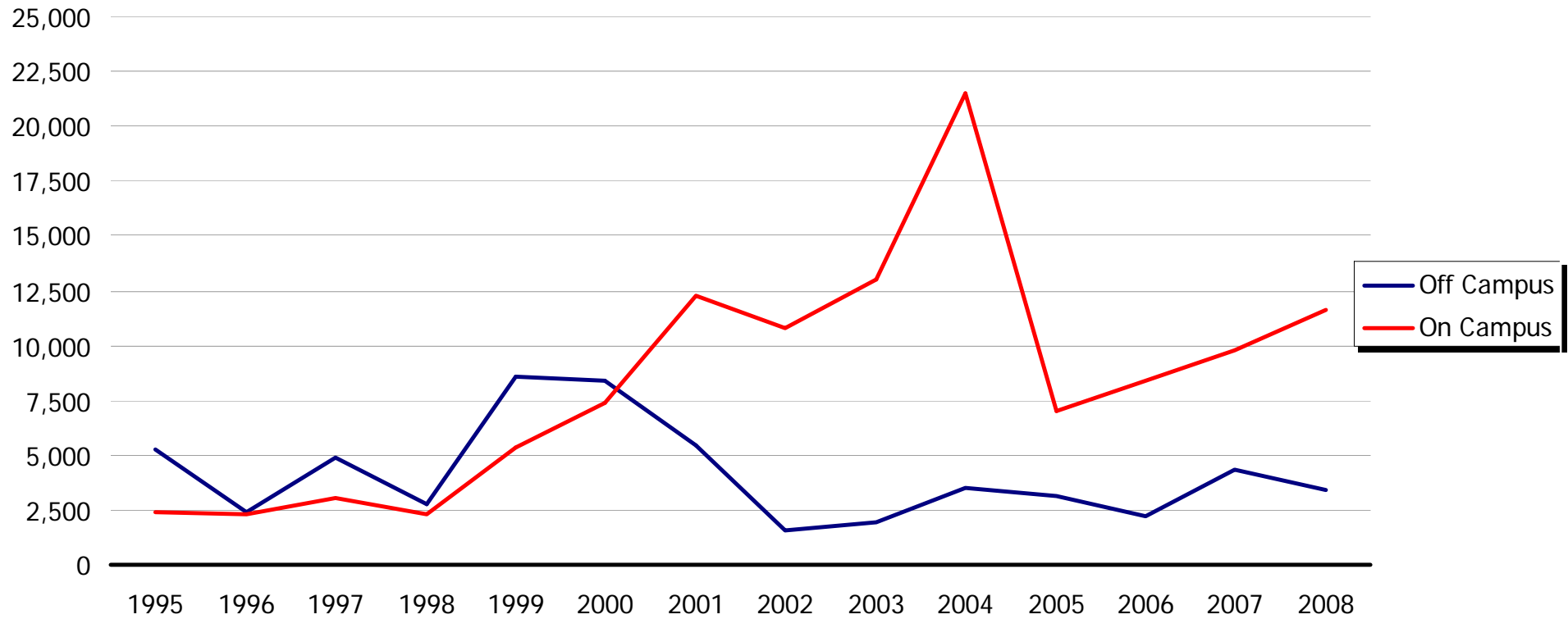
Partnering Trends

- Annual survey of most active developers of on- and off-campus student housing
 - 1995-2008
 - 345 projects
 - 176,000 beds
- Median Project Statistics
 - 477 beds
 - 159,200 GSF
 - \$16.9 million project cost
 - \$37,200/bed
 - \$115/GSF



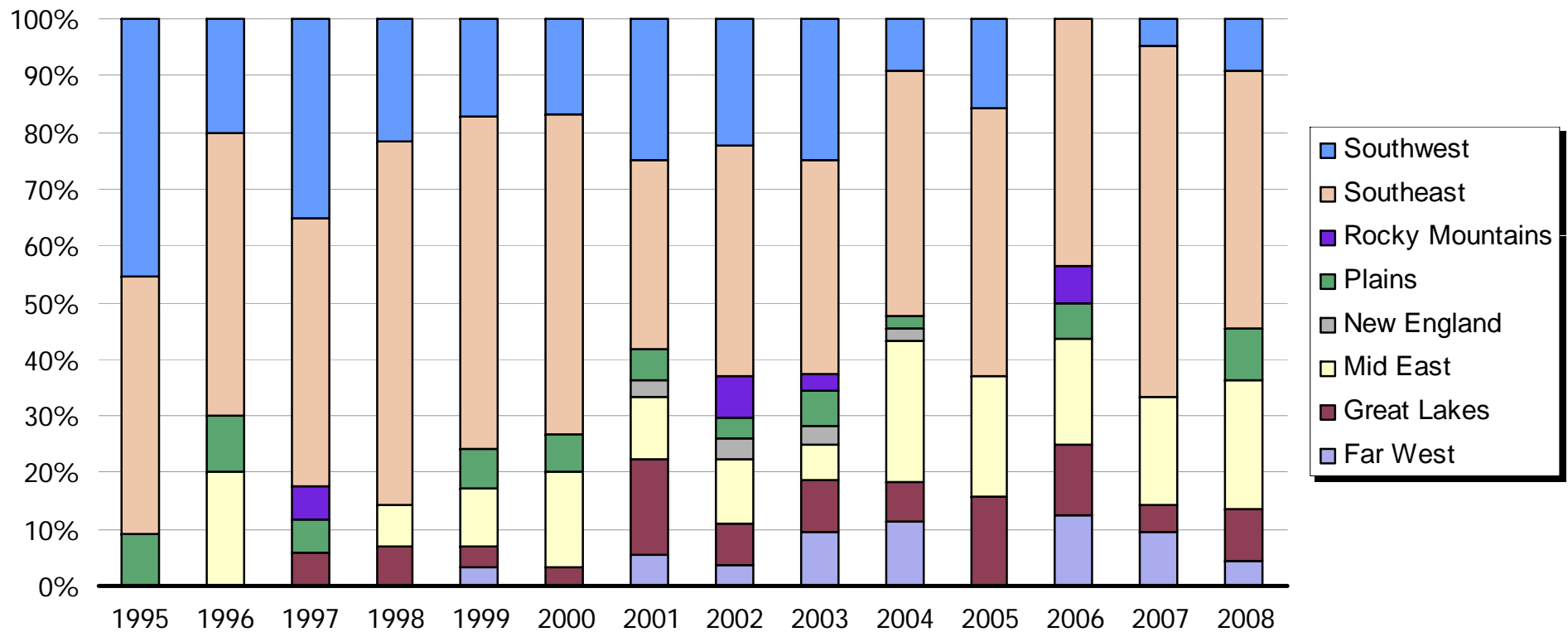
Partnering Trends

■ Total Beds (1995-2008)



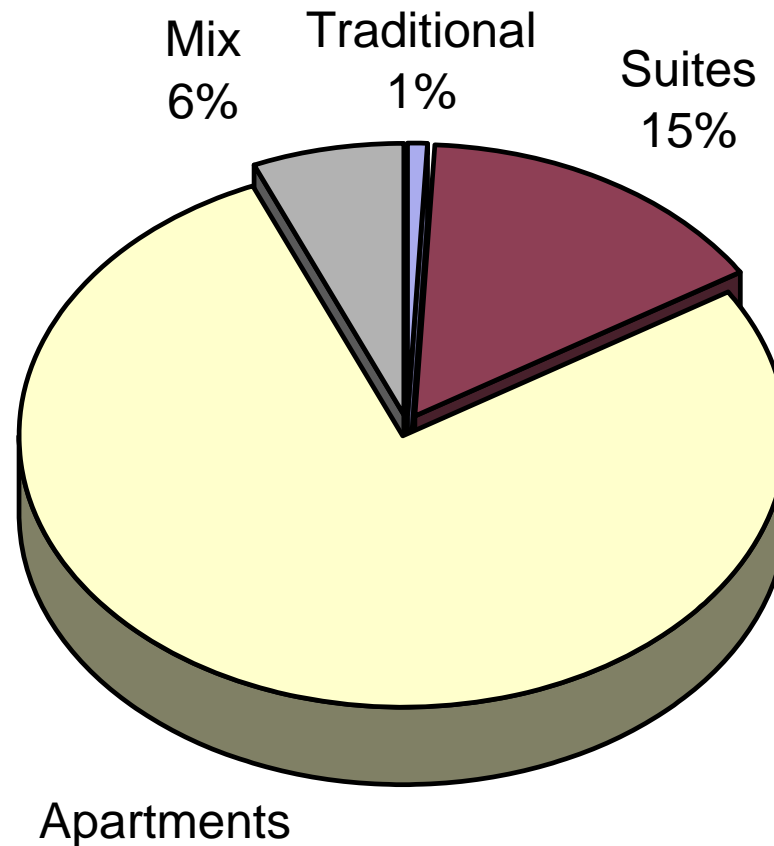
Partnering Trends

■ Projects by Region (1995-2008)



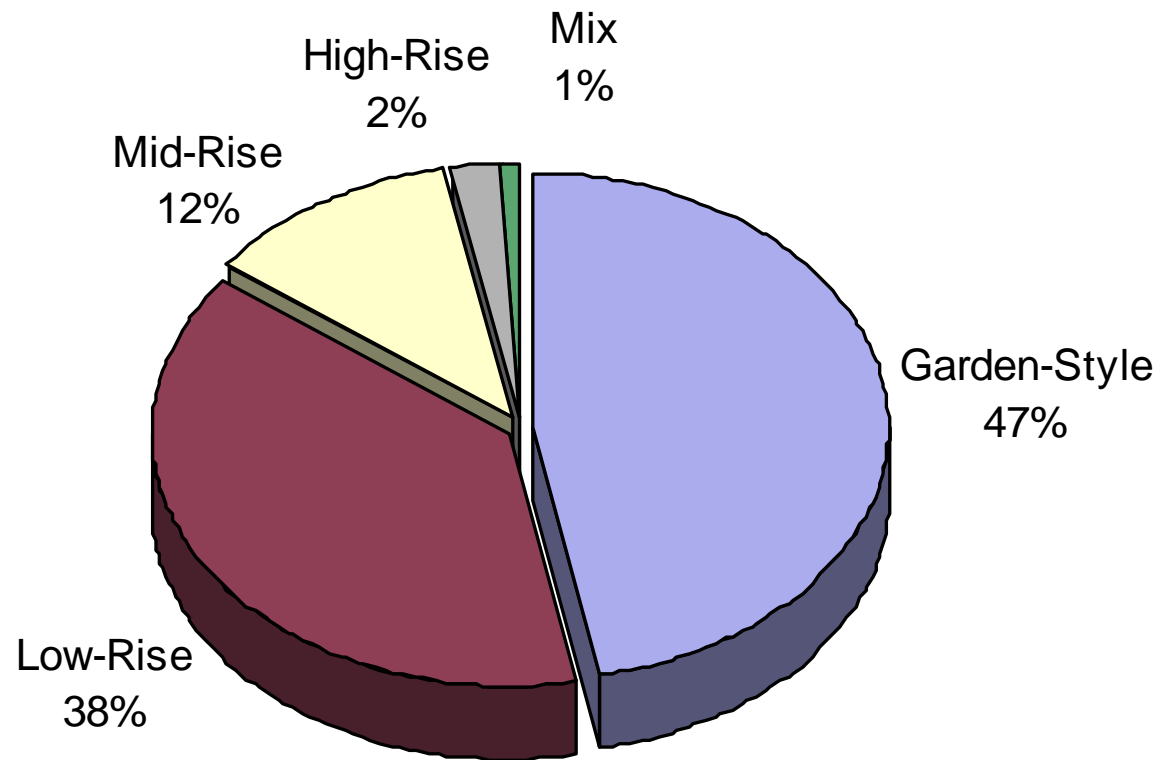
Partnering Trends

- Projects by Unit Type (1995-2008)



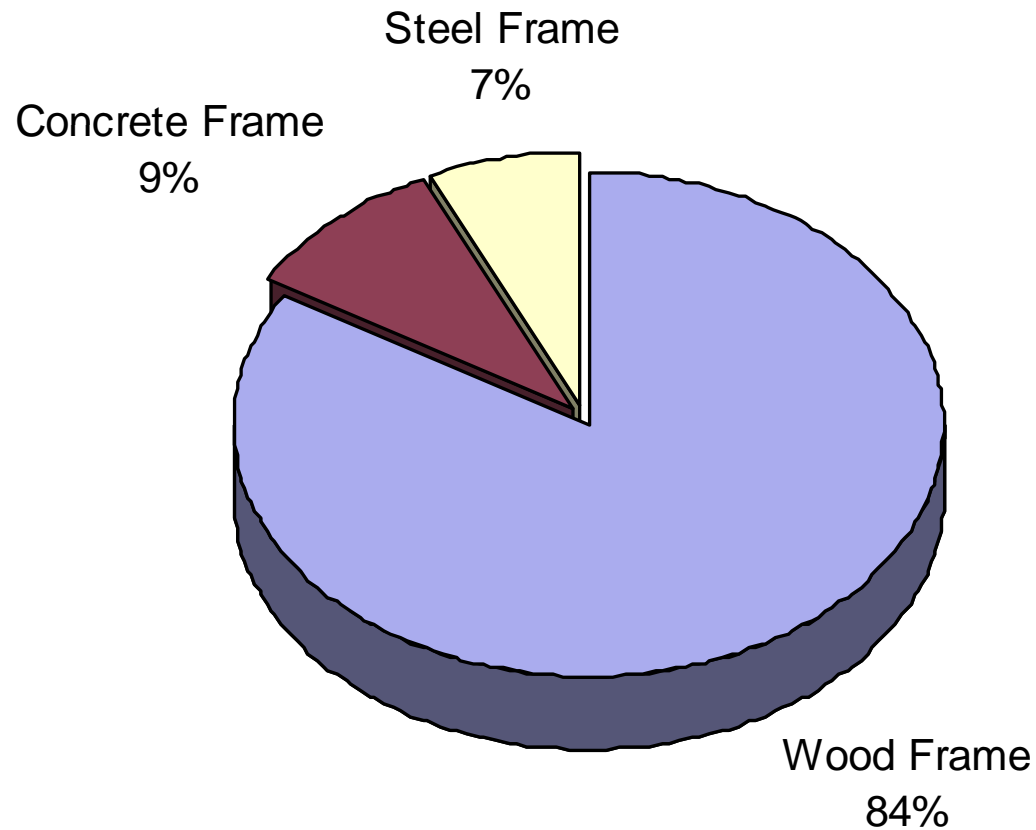
Partnering Trends

- Projects by Product Type (1995-2008)



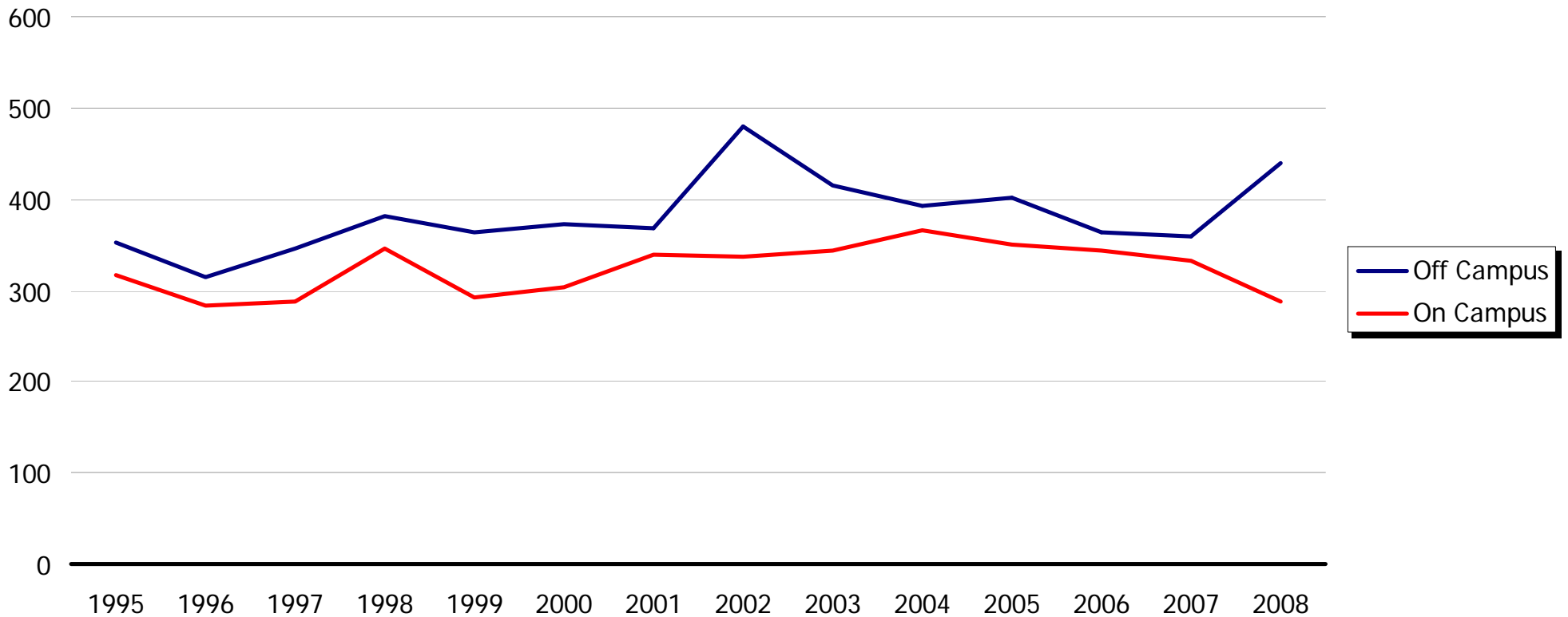
Partnering Trends

- Projects by Structural System (1995-2008)



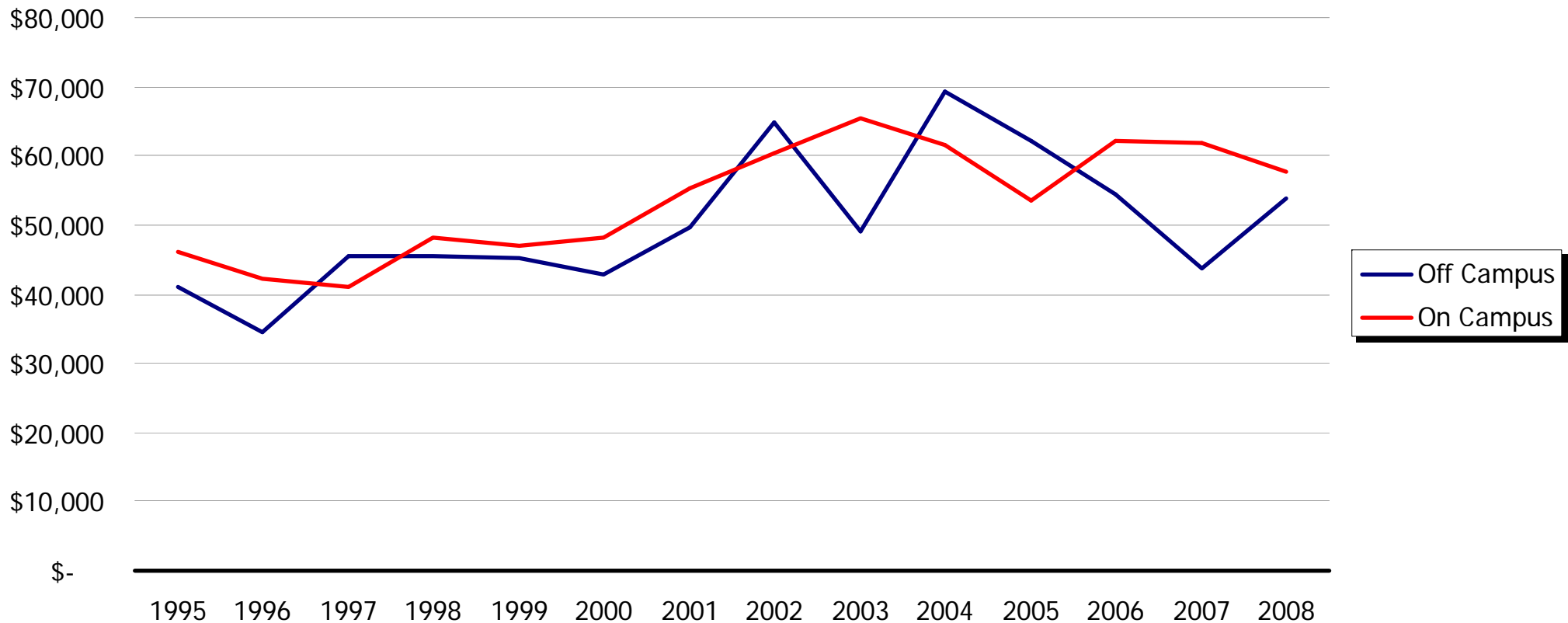
Partnering Trends

- Average Area per Bed



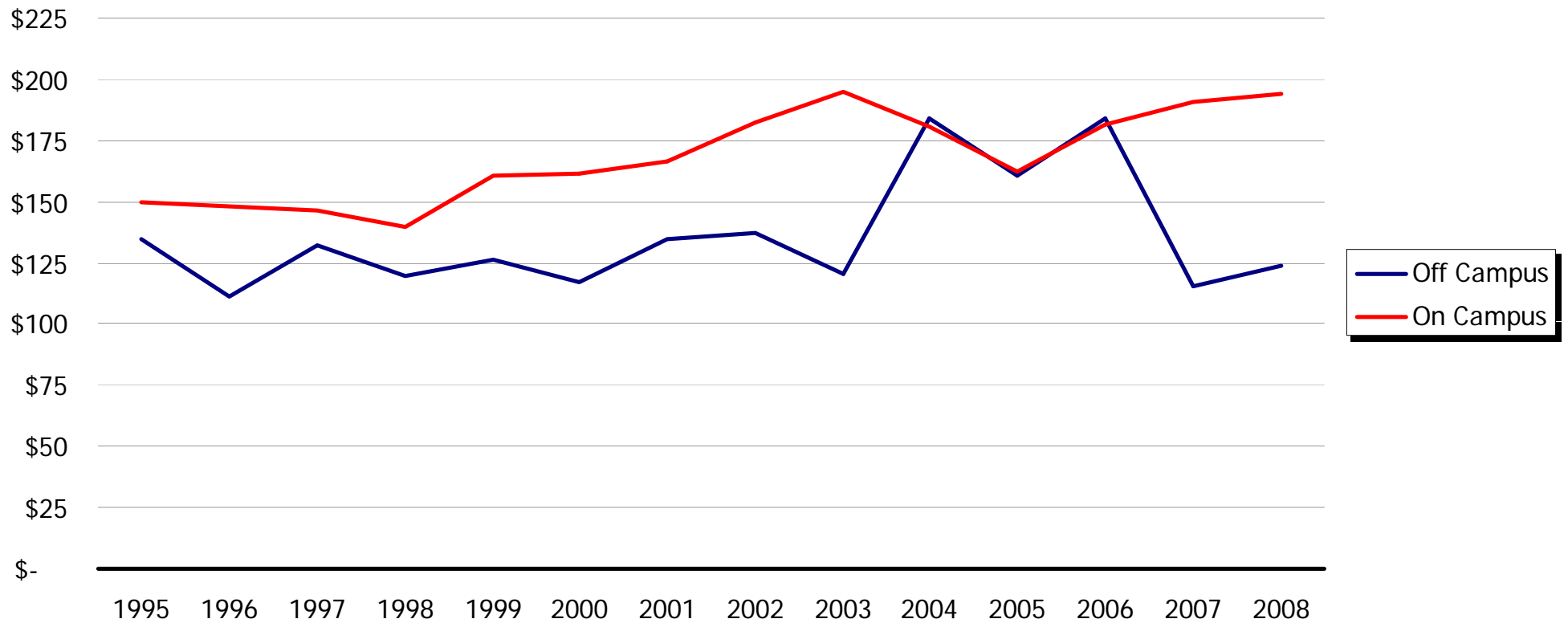
Partnering Trends

- Average Cost per Bed
(Cost Adjustment: Inflation/Location)



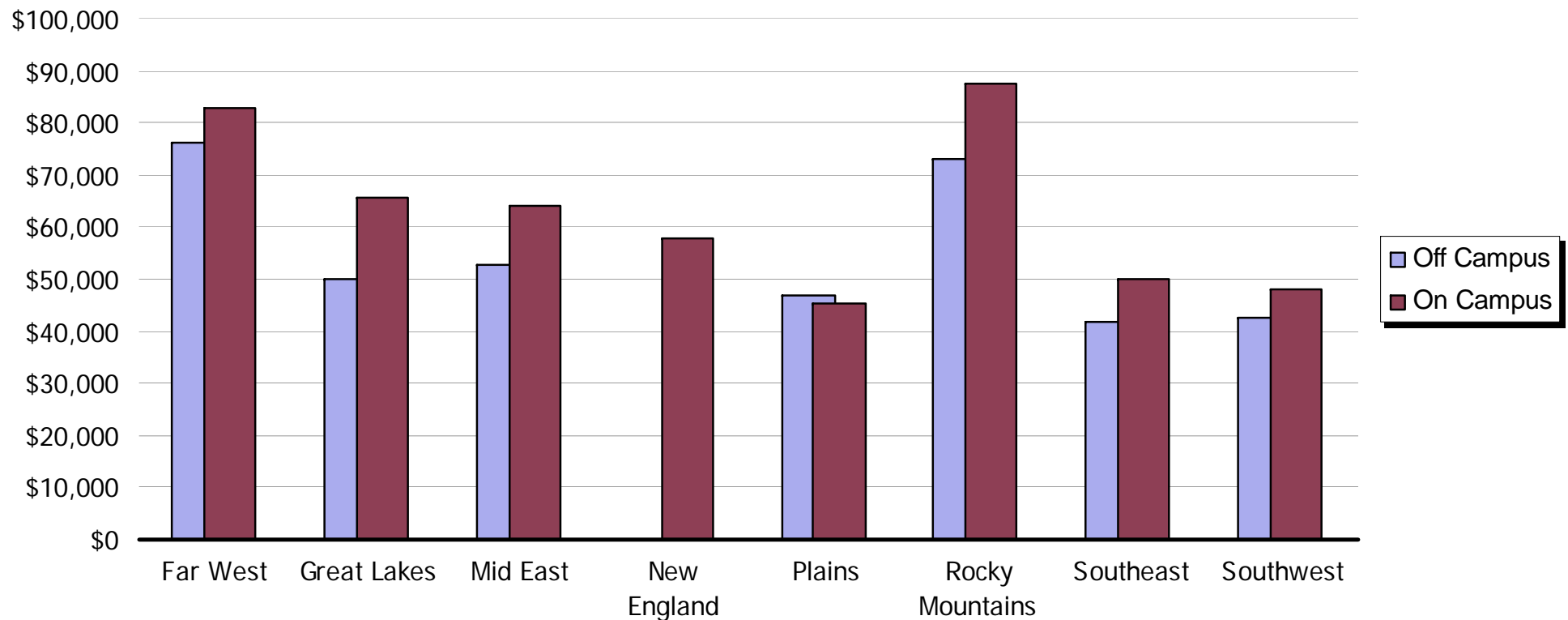
Partnering Trends

- Average Cost per GSF
(Cost Adjustment: Inflation/Location)



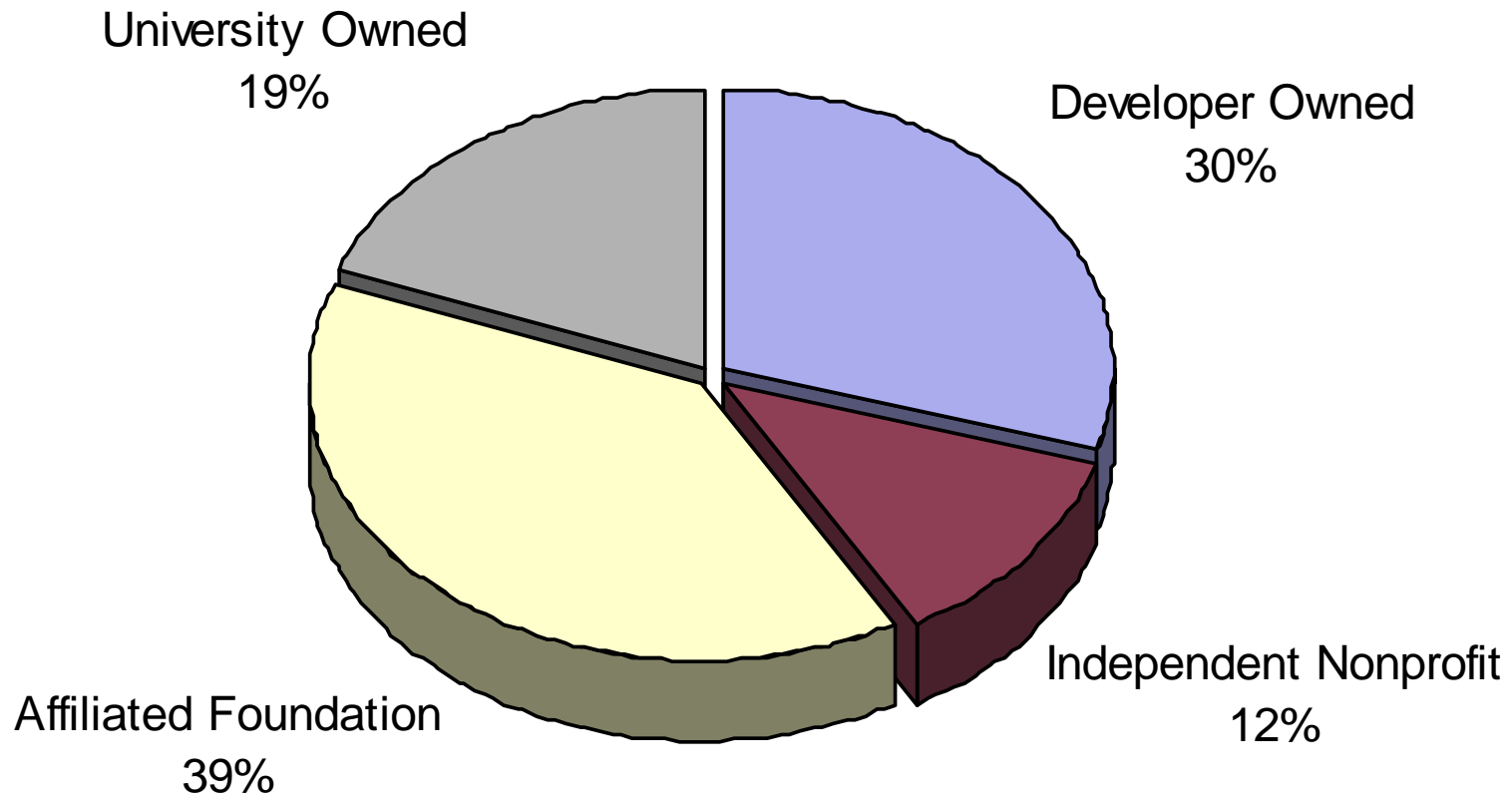
Partnering Trends

- Average Cost per GSF
(Cost Adjustment: Inflation only)



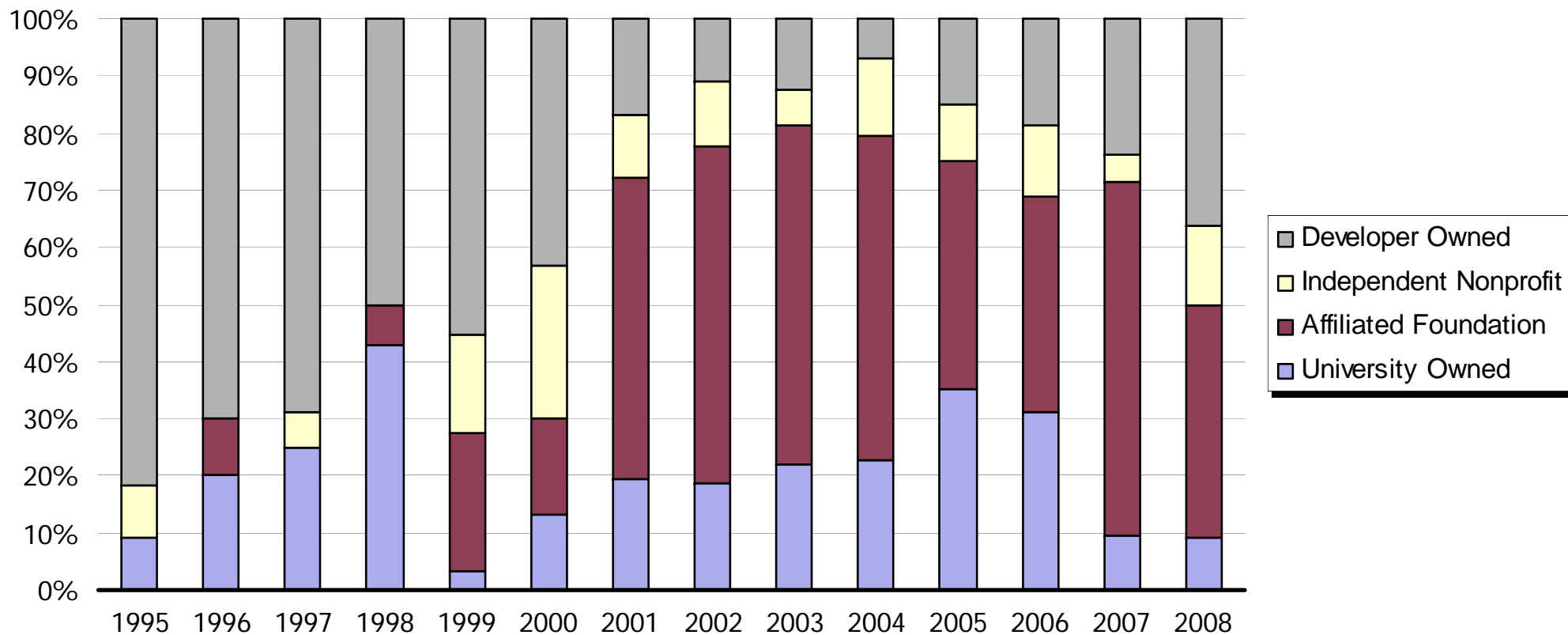
Partnering Trends

- Projects by Structure (1995-2008)



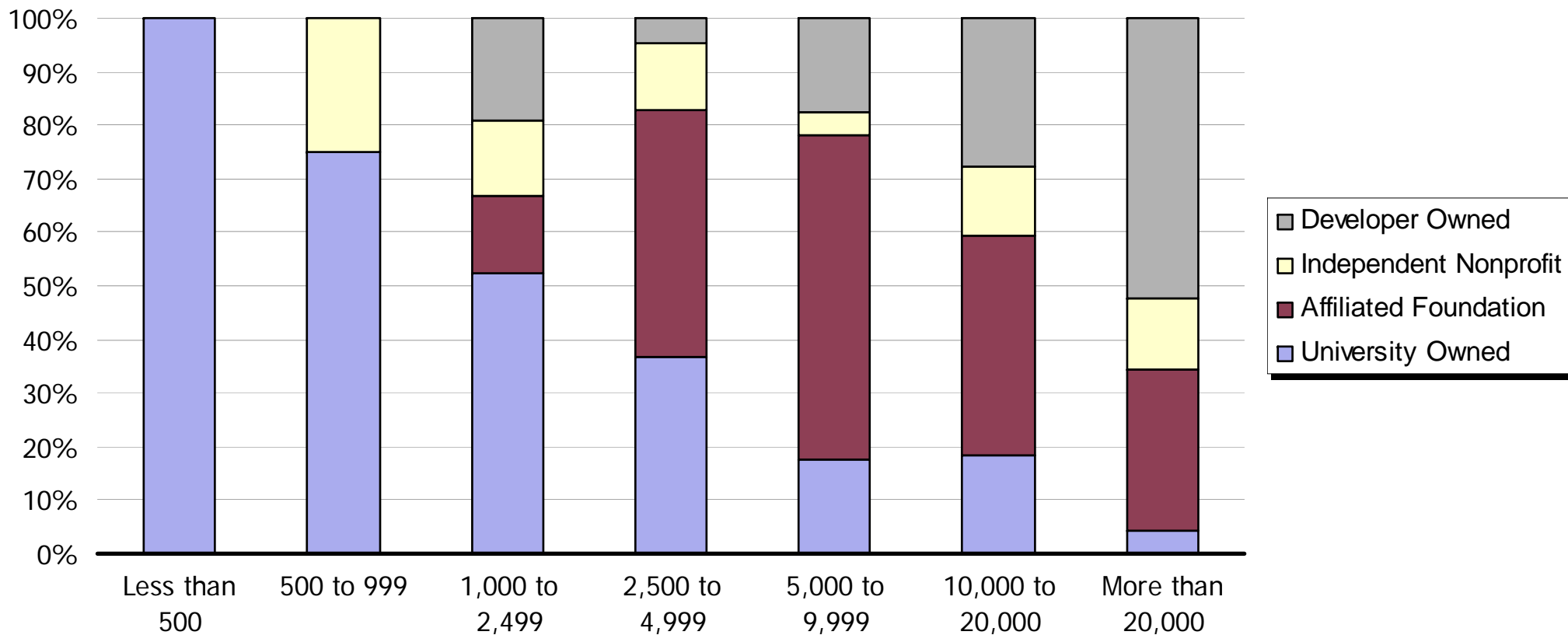
Partnering Trends

■ Projects by Structure



Partnering Trends

- Percent Projects by Enrollment and Structure (1995-2008)



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Developer Insight

Developer Insight

- Changes Over Past Five Years
 - Colleges and universities more knowledgeable
 - P-P partnerships seen as more of a “commodity”
 - More variety—not just apartments and not just wood frame
 - Expansion into redevelopment, mixed-use, and other facilities/more complicated RFP’s
 - Field settling down to major players



Developer Insight

- Changes Over Past Five Years
 - Green facilities
 - Continued demand for privacy, even if living space smaller
 - Acceptance of off-campus student housing as “mainstream” by multifamily housing investors
 - Lowered cost of capital
 - Increased demand for operators with student housing experience
 - Increased demand for more consumer-oriented housing (e.g., technology, security)



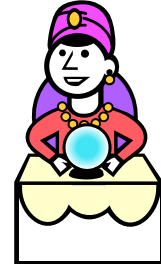
Developer Insight

- Changes Over Past Five Years
 - Advent of the REIT (Real Estate Investment Trust)
 - Corporation or trust that uses the pooled capital of many investors to purchase and manage income-producing property
 - Traded on major exchanges like stocks
 - Student Housing REITs
 - American Campus Communities
 - Education Realty Trust Inc. (Allen & O'Hara)
 - GMH Communities Trust



Developer Insight

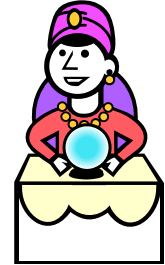
- Changes Over Next Five Years
 - Continued presence of REITs
 - How will they fare?
 - Open information on operations
 - Focus on off-campus market
 - Acquisitions challenging
 - Focus on larger “name” schools
 - Increased complexity of projects
 - Smaller, highly-leveraged firms will be forced out of the market
 - Improved understanding of credit/balance sheet issues



Developer Insight

- Changes Over Next Five Years

- Continued pressure on development fees
- More public-private partnerships
- Design/build and design/build/manage increase
- Increased academic connections
- Improved understanding and acceptance by rating agencies and credit enhancers
- New types of tax-exempt options?

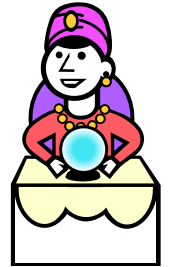


Developer Insight

■ Changes Over Next Five Years

■ ACE (American Campus Equity) Program

- ACC invests significant percentage of deal in cash and borrows the rest
- Result is off-balance sheet deal and may be off-credit
- Cost of fees and capital similar to tax-exempt financing
- ACC develops housing on land leased from the institution
- Upon completion, ACC transfers title to institution subject to an 85-year leasehold interest; ACC makes lease payments
- ACC operates and maintains facilities (Advisory Committee)
- Focus on long-term cash flows



Developer Insight

- Impact of Increasing Construction Costs
 - Worst is over; escalation decreased over past 12 months
 - Cost increases forced some to look at only larger projects with economies of scale; others decreased project size, cancelled projects, or offered fewer common amenities
 - Pressure on quality an issue—industry needs to maintain integrity
 - Still some increases (3% to 5% annually) depending on part of the country compared to previous 1% per month
 - Depressed for-sale housing market frees up labor market



Developer Insight

- Advice to Institutions
 - Understand that projects need “champions”
 - Focus developer selection on chemistry and approach more than numbers
 - Know your partner—tour their projects
 - Understand that if it sounds too good to be true, it probably is
 - Involve all stakeholders from the beginning, including custodial staff



Developer Insight

- Advice to Institutions
 - Be serious about project; cancelled and re-issued RFPs will not get a good response
 - Realize developers cannot fulfill entire wish list—developers “do not have a Brinks truck in tow”
 - Avoid micromanagement
 - Be realistic about timeframes
 - Understand that developer/managers are not out to take over housing system
 - Understand issues of credit and off-balance sheet impacts



Developer Insight

- Advice to Institutions
 - Accept that most developers are knowledgeable about residence life and academic ties
 - Require developer to provide full-time local supervisor
 - Realize smaller deals (100-150 beds) will not likely be of interest to national developers who look for minimum of 250 beds
 - Make sure the partnership is solid so both sides benefit



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Participating Developers

Participating Developers

Ambling Companies, Inc.
348 Enterprise Drive
Valdosta, GA 31601
229-244-2800
www.ambling.com

- “Raising Standards. Building Relationships.”
- Focus on on-campus partnerships
- Customer service before, during, and after
- Can handle large, complex projects
- Client relationship is key



Participating Developers

Allen & O'Hara Education
Services, Inc.

530 Oak Court Drive

Memphis, TN 38117

901-259-2500

www.aoinc.com

- “America’s leader in collegiate student housing”
- History as operator flows into development side
- Focus on student as customer
- Taking responsibility
- High level of commitment



Participating Developers

American Campus Communities
805 Las Cimas Parkway
Suite 400
Austin, TX 78746
512-732-1000
www.studenthousing.com

- “Bringing student housing to life”
- Strongest balance sheet
- Offers “every possible financial structure”
- Positive operational results
- Development expertise



Participating Developers

Capstone Development Corp.
431 Office Park Drive
Birmingham, AL 35223
205-414-6400
www.capstone-dev.com

- “Leadership Earned by Innovation”
- More p-p partnerships than any other firm (55)
- Think outside the box
- Not just a development firm but a group of professionals covering all aspects of student housing



Participating Developers

Campus Living Villages—Century
1001 Fannin
Suite 1350
Houston, TX 77002
713-871-5100
www.clvusa.com

- Manage 20,000 beds of on-campus housing
- Also provide development services
- Become part of the “university fabric”



Participating Developers

University Housing Services, Inc.

One Progress Plaza

200 Central Avenue

Suite 550

St. Petersburg, FL 33701

727-821-8909

www.uhsi.com

- “Building Better Housing”
- On-campus focus
- Strong construction background
- Good problem solvers



Contact Information

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