

Mike Heatley's

D/FW LAND ADVISORY

12th
Year!

Street Smarts For Real Estate Speculators

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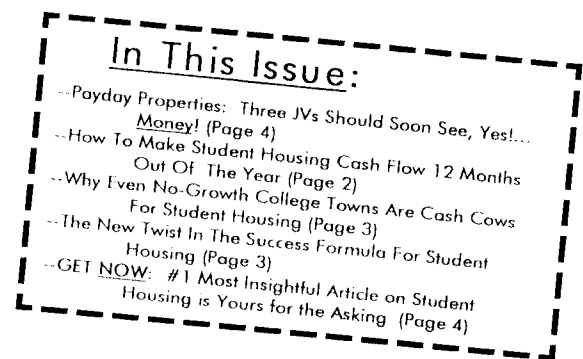
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--Special Issue--

Presenting Heatley's Street-Smart Crash Course...

Student Housing 101

The Questions To Ask Before Writing The Check



From:
Las Colinas, Texas
Tuesday, 8:23 p.m.
July 20, 1999

Dear Subscriber and Fellow Speculator:

Unless you are locked in to the college bandwidth, probably the recent stampede to student housing seems a little strange. Strange because college kids can hardly be regarded as the preferred clientele of landlords. Strange because, three years ago university housing officials held their national annual meeting and rolled out the red carpet to private firms with interests in student housing.

Three companies showed.

This year the same convention drew more than 30.

This year the big mucky mucks of real estate development who didn't pay that much attention to the college folks three years ago are suddenly racing like mad to get their share of the student housing market.

What gives?

Welcome to Heatley's street-smart crash course on Student Housing. Get yourself out a fresh, new, neon-bright highlighter and follow closely this Q & A session here. I've discovered through hours of personal interviews (my questions, their answers) and on-line research what really drives this market that time almost forgot. Here, in No-B.S.-Dumbed-Down-Street-Talk, is exactly what you need to know to stack the deck in your favor.

Q: First, Why All Of A Sudden So Big A Deal About Student Housing Anyway?

Yesterday's traditional dorms—designed in the 50s and 60s—aren't making the grade with today's college students. When kids of the 90s leave home for college, they want housing that duplicates the environment that they grew up in—a place that offers private rooms, easy Internet access, and all the fuzzies of home. Research shows that privacy is the most important housing amenity for today's students, followed closely by the availability of technological connections.

To score with digital-age kids, universities have to offer much more than basic room and board nowadays. The ability to provide students with attractive living environments is becoming a key recruitment tool as schools face intense competition to recruit top-notch pupils. But most schools don't have the housing funds to provide up-to-the-minute, apartment-style living spaces for students. So they're turning to outside sources to provide first-rate housing with the amenities that students demand. To their credit, colleges and universities are finally realizing that they're in the education business—not the business of real estate development, investment and management. And they're discovering they can free up a lot of their own capital that can be applied to educational goals when private companies build, finance and operate student housing.

Q: Private Investment In Student Housing May Be A Good Deal For Universities Alright, But Who Do You Know From The Private Sector That's Making Money?

Although private owners of student housing properties are the newest kids on campus, some companies are already reaping rewards from their investments. Down in Austin, one company leaped into the student housing market after it turned around a poorly maintained property with high vacancy rates. Today the property has 100% occupancy with a waiting list—and the company has 24 student housing developments across the nation. Dallas-based JPI—one of the nation's leading player in multifamily housing developments—has a student housing portfolio of 11 properties nationwide, and they're aggressively acquiring and developing other properties. Observing successful ventures like these, more companies are jumping on the bandwagon all the time.

Q: But Profit Margins Are Thin For Highly-Leveraged Properties Of Any Kind. What Makes Student Housing Any Different?

Successful companies in student housing admit that cash flow can be wiped out for the year without careful leasing management. Since most tenants arrive in the fall and leave in the spring, vacancies skyrocket during the summer. One company claims it has "improved net operating income greatly" by developing a multi-tiered lease plan with five levels of rates. With a full-year lease, students get the lowest rate. For shorter lease terms, they pay higher rates. Now summer vacancy rates are less than 15%, as compared to 60% before the rate change. Another property owner combats summer vacancies by only offering leases on July 31 and December 31. Although the college semester ends in May, tenants actually have leases through July 31. Since the fall starts in late August, the leasing arrangement minimizes summer vacancies.

Q: No Getting Around It: Student Housing Counts As Apartments, And Everyone Is Saying How Apartment Construction Needs To Cool. Are You Telling Me The Demand For Student Housing Is So Deep I Shouldn't Worry Over This?

There's a strong, established market for student housing—and it's growing. In October 1996, 15.2 million Americans were enrolled in U.S. colleges and universities. Sixty percent of them—more than 9 million—were under age 25, the prime age group for student housing properties. And the U.S. Department of Education predicts that total enrollment in undergraduate and graduate programs will rise to more than 16 million by 2008.

Even if times are tough, parents are always going to find the money to send their kids to college. And they

don't want their kids to live in a crummy part of town. Safety is a vital issue for parents, and newer student properties usually offer safer accommodations than older dorms. Some property owners claim the demand is so strong for quality student housing that they don't even have to market their properties. In short, private investors are finding a built-in market—and a pent-up demand for prime student housing properties.

Q: I've Noticed Some Projects Being Built Where The University Could Hardly Be Classified As Being On The Fast-Growth Track. Isn't Getting A Project Up And Stabilized In Such Towns Betting On The Come?

If you have a good product, word spreads like wildfire on college campuses. And if nothing has been built in the area for years, the odds are good that students will prefer to live in new properties instead of old ones. Remember—these are the kids of the 90s who demand quality housing. As long as your rents are only a nickel more than that archaic dorm down the street that only *resembles* student housing, chances are you'll have a full house on your hands.

Q: So... What IS The Magic Formula For A Successful Student Housing Venture?

The most popular properties offer apartment-style arrangements that have a central living area with three or four private bedrooms, one or two baths, and small kitchen facilities. Essential features include data connections, individual heating and cooling controls, and moveable furnishings. The properties also provide large community rooms that can be used as study lounges, seminar space, or coffeehouses. Many new student housing facilities are part of a courtyard village containing multiple units centered around a common outdoor area. Instead of offering traditional apartment leases, today's successful student properties require individual students to lease bedrooms within the apartments. Under the per-student leasing structure, apartments can continue to generate cash flow even if individual units are not fully occupied.

→ #1 Key To The Vault !!!

As always, a key ingredient of success for student properties is the golden rule of real estate: location, location, location. Some schools are so eager for new student housing that now they're even opening up campus space to private investors. On-campus sites, of course, are the most appealing, but prime off-campus sites are turning profits, too. One university housing officer, however, advises that the best off-campus sites are located on shuttle routes. University parking can be expensive, and lots of students don't have cars. Thorough research of local market trends and demographics can help investors pinpoint the best locations.

Q: Everybody Is Wise To The Animal-House-Like Respect Students Have For Rental Property. How Do I Know My Profits Will Survive The Maintenance Costs?

Pioneers in student housing say you have to keep a tight rein on damage control. Many demand hefty damage deposits and opt to conduct thorough inspections throughout the year instead of waiting until students check out at the end of the term. But the best way to control maintenance costs, they claim, is to set the ground rules with students from the start. Clearly spell out the terms of the lease, and present a price list for damages in advance so kids will understand that they'll pay and pay dearly for any abuse to the property. Imposing stiff penalties for repeat violations deters further abuse problems.

For students with bad credit or questionable housing references, require a co-signer for the lease. Co-

signers—especially parents—offer your properties an extra degree of protection.

Q: Time To Come Clean. What's The Real Downside In Student Housing?

Exactly this: building student properties is easier than managing them. And managing is a oh so constant thing. Spend time here if you want the deck stacked in your favor. For all the demand for student housing and its generous cash flow potentials, not having the right management people can kill your deal. Go look at the projects, ask questions, check track records, investigate, investigate, investigate. If the people in charge don't have it down cold, wait for the next street car. Once you get in these, they aren't so easy to get out of.

OK: pro or con, no matter what you make of Student Housing as an investment, this I do know: private companies are expanding their student housing portfolios like they were faced with a late start on filling a Macy's Day balloon. This trend you should see lasting well into the twenty-first century, but the better opportunities I believe will begin to dry up 24-36 months from now. After that, the sweet ones won't be as easy to find because lots of dollars will be chasing not lots of product. Given the growing numbers of investors who are stockpiling wealth from this racehorse, however, it seems to me you risk more by *not* being in this market than by being in. For you, it gets down to this:

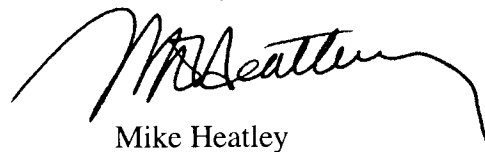
** Get This Now!*

**Do Your Homework Now
And Be Ready When
The Right One Gets Here!**

"But gee Mike, how'm I going to do that when you don't even have a deal for me to look at?" Somehow I knew you'd ask, so I have it figured out for you. What you do is, you call **972-550-9395** and leave your name and address followed by the words "**Student Housing 101.**" Then what I will do is, I will mail you free of charge the #1 most insightful article I have uncovered on this business of Student Housing, complete with margin comments and highlighting so you don't have to dig for yourself.

So, what else is it you wanted?

Sincerely,



Mike Heatley

P.S. You Have MONEY!! IF... you have dollars in Loop 820/Riverbend... Richardson/Breckinridge... or Illinois Ave/Mountain View... start looking for that check in the mail. Suddenly all three are looking like closers. We'll know for sure in around 90 days, some sooner. Oh... and the last lot sale in Riverbend Estates... that too is going to make a lot of campers (even me for a change)... happy.