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MARKETS | PROPERTY REPORT

Foreign Investors Pile Into U.S. Student Housing

Buyers seek alternatives as the bull market in the commercial real-estate market gets long in the tooth



This student housing in Austin, Texas, home of the University of Texas, was part of a portfolio bought by a joint venture that includes the Canada Pension Plan Investment Board, Singapore sovereign-wealth fund GIC, and Chicago-based Scion Group. PHOTO: THE SCION GROUP

By Esther Fung

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Foreign investors once flocked to trophy real-estate assets in the U.S. such as fancy hotels and sky-high towers.

Now, as the commercial real-estate market enters the late innings of a bull market, foreigners are diving into a less exotic sector: student housing.

In January, a joint venture between the Canada Pension Plan Investment Board, Singapore sovereign-wealth fund GIC, and Chicago-based student housing owner Scion Group announced that it acquired a portfolio of 22 student housing properties for \$1 billion. All told, the venture has purchased more than \$4 billion of student housing totaling 46,555 beds in 52 university markets since 2016.

Also last month, Mapletree Investments Pte, owned by Singapore state investor Temasek Holdings, bought Cira Centre South, an 850-bed student housing high-rise facility in Philadelphia, for \$197.5 million. That added to its portfolio of 17 student housing holdings of more than 11,000 beds in the U.S.

Meanwhile, Safanad Ltd, an investment firm with offices in Dubai, London and New York, on Jan. 30 invested \$69.5 million in a pair of student housing buildings in Hyattsville, Md., bringing its U.S. student housing portfolio to around 11,000 beds valued at \$800 million.

"It's an asset class like social infrastructure," said Christopher Merrill, co-founder, president and chief executive officer of Harrison Street Real Estate Capital, a privately held firm that sold the \$1 billion student housing portfolio last month to the joint venture that included Scion Group. "People will attend universities in good and bad times."

During the early stages of the bull market for commercial property, foreign investors loaded up on iconic assets such as the Waldorf Astoria hotel and One Chase Manhattan Plaza in New York. But with the expansion in its eighth year and interest rates poised to rise, some foreign investors are seeking safer territory. They say the anti-cyclical nature of student housing and the modernization of these facilities and operations offers attractive yields relative to the risk.

In all, foreign capital has accounted for 42% of student-housing transactions so far this year, compared with 36% in all of 2017 and 21% in 2016, according to data from property investment advisory firm ARA Newmark.

Ryan Lang, executive managing director at ARA Newmark and head of its national student housing group, said he has handled transactions with overseas family offices, institutional investors and private capital including from China, Russia, the Netherlands and the Middle East. He said they are looking to diversify their holdings and added that student housing is seen as a safer alternative at this point in the cycle.

While overall college enrollment in the U.S. has been decreasing since 2010, enrollment in public universities is growing. Residences located near the campuses of big, tier-one state schools such as the University of Texas, and colleges with strong science, technology, engineering and math programs as well as high-profile sports teams are highly sought after.

"Public institutions get a lot of attention," said Mr. Lang.

The sector isn't without risks. There is a higher attrition rate in student housing than in multifamily real-estate investment, and missteps in leasing could cause rooms to be empty for a semester or even an entire academic year.

But students' strong preference to be as close as possible to school keeps demand strong. What's more, an affinity among foreign investors with U.S. colleges from personal experience or through family and friends gives the sector a leg up over other niche real estate categories such as manufactured housing.

"The international capital flows are consistent with many investment managers' personal experience," said Avi Lewittes, chief investment officer at The Scion Group LLC. "There's an extra degree of comfort and familiarity [with student housing]."

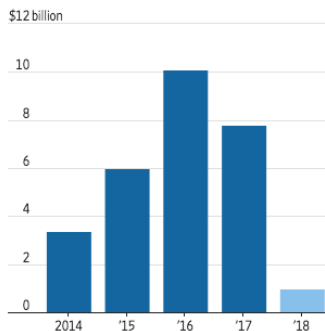
For traditional investors such as student housing REITs like Education Realty Trust Inc. and American Campus Communities Inc., the wave of deep-pocketed foreign investors makes it tough to match their previous returns, said Ryan Burke and Ryan Lumb, analysts at real-estate research firm Green Street Advisors in a research note.

"Greater competition brings acquisitions at higher valuations, developments at lower yields, and less of a competitive advantage on operations relative to the past," said the analysts.

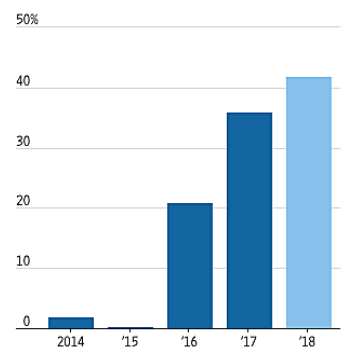
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Appetite From Offshore Capital

Value of student-housing transactions



Percentage of buyers that are foreign capital



Note: 2018 is through Feb. 26
Source: ARA Newmark