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School for Profits

College real estate yields lucrative investment niche

From upscale coffee shops and multi-screen theaters to high-end apartments, developers and investors are finding strong demand for commercial real estate at American colleges and universities. "It's definitely a growth area and you're going to see a lot more of it," says Marcel Burgler, principal at Prime Developments in Grand Rapids, Mich.



In a joint venture with Wayne State University in Denver, the developer is constructing a 128-unit apartment complex with 26,000 square feet of retail next to the school's campus. In return for the developer's \$20 million mixed-use investment, Wayne State is building a \$14 million, 950-space parking deck to serve the project.

"It's a vibrant community with literally thousands of people walking around all the time," Burgler says. "You get that energy level from the students – People are sitting outside having a drink, and it's a fun place to be."

Investors will have increased opportunities to serve growing student populations through 2013, according to projections by the U.S. Department of Education. College enrollment has been trending upward since 2001 and is expected to swell in the coming years as Baby Boomers' kids – Generation Y – hit college age. In October 2006, nearly 66 percent of high school graduates from the Class of 2006 had enrolled in colleges and universities, according to the Bureau of Labor Statistics.

At the same time, learning institutions are seeking ways to serve students and faculty without depleting limited capital programs. By working with outside developers, a school can conserve funds, contributing valuable land and invaluable customer traffic to help new projects succeed.

A pioneering project is under way at Arizona State University in Tempe, Ariz. Austin, Texas-based American Campus Communities is using its own equity to develop the \$138 million South Campus Residential Community on a ground lease at the ASU campus. American Campus will retain a lease-hold interest in the project, a departure from common practice in which schools retain sole ownership of on-campus projects. At full build-out, the project will provide 5,000 beds for a total value of \$350 million, according to Bill Bayless, CEO of American Campus.

"We see this as a model that can be utilized by institutions nationally that are looking to

The ASU campus in Tempe, with 32,000 students, is the nation's largest. Yet even a small school may offer sufficient student volumes to fuel new commercial development.

Big Potential in Small Markets

College communities combine higher education, along with higher income and spending, boosting the profit potential for retail projects in markets that might otherwise be considered too small for big-name stores, according to Brady Gruhn, director of sales and leasing at Lockard Development.

The Cedar Falls, Iowa-based company is developing Pinnacle Prairie, a 750-acre, mixed-use project about a mile from the University of Northern Iowa. When complete, the project will include as much as 1 million square feet of retail, 2,000 single-family and multi-family residences, a 75-acre office park and a continuing-care retirement community.

The university's faculty and 13,500 students attracted Target, Talbot's, Coldwater Creek and Chico's to the retail section, along with several restaurants including Granite City Food & Brewery and Biaggi's Ristorante Italiano.

"Proximity to the university is going to allow for higher-end retail," Gruhn says. "Due to the university and elevated incomes that go with it, retailers that may normally look for 300,000-plus populations will go to a market of 100,000." Cedar Falls, together with the neighboring city of Waterloo, has about 100,000 residents.

Gaining Admission

The greatest drawback to campus-related real estate investments may be a painfully slow planning process. Either on or off campus, projects intended to serve a university population require more time and flexibility than comparable developments in conventional markets, says Burgler of Prime Development.

The firm's apartment and retail project at Wayne State, for example, involved 1.5 years of planning and consensus building before breaking ground. "It takes a true collaborative effort," Burgler says. "Universities just have a different mindset than private industry."

Why are colleges and universities so sluggish with their real estate initiatives? Academic leadership structure and a lack of development experience are the chief culprits, according to John K. McIlwain, senior resident fellow at the Urban Land Institute.

"Schools traditionally are not used to forming business partnerships," McIlwain says. "They tend to be a cumbersome bureaucracy, and there frequently is no one in charge of the campus' real estate business who understands real estate."

For an investor attempting a school-related development for the first time, McIlwain recommends working with a consultant or developer experienced in similar projects. Even if the investor works out tentative plans with school administrators, the final decision will come from trustees who will want to see a successful track record before committing to a project.

Investors have a better chance of winning a school's leadership over to a development plan if they first study the college or university's real estate needs and resources, says Susan Lawrence, owner of Orlando-based Real Estate Strategies Inc.

Lawrence, who serves on a real estate advisory board at the University of Central Florida-Orlando, is currently helping the school launch a continuing-care retirement community that will give retirees access to many university programs.

Lawrence recommends a three-pronged approach: First, understand the school's real estate ownership structure (whether state-owned, held by a trust, or other arrangement). Second, learn about the school's funding. State schools, for example, usually have access to bond proceeds, which can provide low-cost funding for joint venture projects. Finally, try to think ahead and design a project to fit the university's needs three to five years down the road. After all, it may take that long to carry a project through from concept to completion.

In particular, the quality of on-campus or adjacent to campus projects is paramount because those projects will reflect on the school as a whole, affecting everything from community and alumni relations to funding, says Dr. Mark Lee Levine, professor and director of the Burns School of Real Estate Management at the University of Denver.

"We've got to worry about image, not just bottom-line net operating income," Levine says. "We have to say, does this development fit all our guiding principles? The last thing we want to do is make a million bucks and offend our community."

With the right approach, however, colleges and universities can provide investors with a unique venue of steady, high-volume pedestrian traffic to drive demand for retail, housing and other space. Those developers who survive planning and construction can usually look forward to steady income from the finished product, says ULI's McIlwain.

"If you can develop a successful retail or mixed-use development, the school can bring land and financing and you can make a good return," he says. "It will take time, but you can come up with a successful project with a built-in market."