

STUDENT HOUSING BUSINESS OPERATIONS EXCHANGE

STATE OF THE OFF-CAMPUS DEVELOPMENT MARKET

Presented by Brad Noyes | October 23, 2012



AGENDA

- ❖ Introduction
- ❖ Key Industry Observations
- ❖ Market Trends & Highlights
- ❖ Planning Response
- ❖ Case Studies
- ❖ Questions & Answers

INTRODUCTION

B&D's purpose is to inspire and enable organizations to maximize the value of investments for the betterment of their communities.



INTRODUCTION

B & D PROGRAM MANAGEMENT

IDEA

PLANNING

IMPLEMENTATION

OPEN

DESIGN

CONSTRUCTION

PRELIMINARY ASSESSMENT

Alcorn's goals and objectives

Is this realistic?

FEASIBILITY

Is this financially and physically feasible?

PROGRAMMING / PARTICIPATION PLAN

What are Alcorn's interests and requirements?

IMPLEMENTATION

How do we balance:
Budget, Schedule, Quality/Program?



INTRODUCTION

Relevant Experience:

- ❖ Over 500 Higher Education Clients
- ❖ Over 250 University Student Housing Projects
- ❖ Over 35 Developer Student Housing Projects
- ❖ Over 30 Mixed-Use Projects

Firm Focus:

- ❖ “Quality of Life” Facilities

Project Staff:

- ❖ Diverse Skill Sets and Backgrounds



INTRODUCTION

American University
Appalachian State University
Arizona State University
Auburn University
Austin Peay State University
Binghamton University
Bloomsburg University of PA
Boise State University
Bowie State University
Bowling Green State University
Brooklyn College
Bucknell University
Buena Vista University
Buffalo State College
Butler University
Cal Poly State University
Cal State Poly U, Pomona
CSU, Channel Islands
CSU, Bakersfield
CSU, Long Beach
CSU, Monterey Bay
Catholic University of America
Central OR Community College
Central Washington University
Cheyney University of PA
City University of New York
Clemson University
Coastal Carolina University
College of Notre Dame of MD
College of Saint Rose
College of Staten Island
College of the Holy Cross
Colorado State University
Converse College
Cornell University
DePaul University
Dixie State College of Utah
East Carolina University

East Stroudsburg University
Eastern Kentucky University
Eastern Washington University
Eckerd College
Emporia State University
Fairmont State University
Fayetteville State University
Flagler College
Florida Atlantic University
Florida International University
Gallaudet University
Garrett College
Georgia Institute of Technology
George Mason University
Harford Community College
Hood College
Howard University
Illinois Institute of Technology
Indiana University
Indiana University of PA
Iowa State University
Kansas State University
Kent State University
Kimball Union Academy
Kutztown University
LaGuardia Community College
Lehman College
Lincoln University
Lipscomb University
Lock Haven University of PA
LA Trade-Technical College
Loyola University Chicago
ME Community College System
Mansfield University of PA
Marquette University
Meredith College
Miami Dade College
Miami University

Miami University Hamilton
Middlesex School
Millersville University of PA
Morehead State University
Morehouse College
Murray State University
New Mexico State University
NO Center for Creative Arts
NC A&T State University
Northern VA Community College
Oakland University
Ohio Dominican University
Ohio University
Oklahoma State University
Old Dominion University
Pace University
Pennsylvania State University
Princeton University
Queens College
Rhode Island School of Design
Robert Morris University
Rochester Institute of Technology
Roosevelt University
Rutgers University
San Diego State University
Shepherd University
Shippensburg University of PA
South Dakota State University
SE Missouri State University
Southeastern Louisiana University
S. Illinois University Carbondale
Southern Univ. & A&M College
Southern Utah University
Spelman College
SUNY at Brockport
SUNY at Geneseo
SUNY at New Paltz
SUNY at Potsdam

SUNY at Stony Brook
SUNY College at Cortland
SUNY College at Oneonta
SUNY College of Optometry
Texas A&M University
TX State University-San Marcos
Texas Tech University
Tompkins Cortland Com. Coll.
Tuskegee University
University at Albany
University at Buffalo
University Heights Association
University of Advancing Tech.
University of Akron
University of Alabama
University of AL at Birmingham
University of Alaska Fairbanks
University of Arkansas
UC, Berkeley
UC, Riverside
UC, San Diego
UC, Santa Cruz
University of Central Missouri
University of Cincinnati
University of Georgia
University of Hawaii West Oahu
University of Houston
University of Idaho
University of Illinois at Chicago
U of IL at Urbana-Champaign
University of Mary Washington
University of MD, Baltimore County
University of MA Boston
University of Memphis
University of Michigan-Dearborn
University of MS Medical Center
University of Missouri-Columbia
University of Missouri-Kansas City

University of Missouri-St. Louis
University of Nevada, Las Vegas
University of New Haven
University of New Mexico
University of New Mexico - Gallup
University of New Orleans
UNC at Asheville
UNC at Chapel Hill
UNC at Greensboro
UNC at Wilmington
University of North Dakota
University of Northern Iowa
University of Pennsylvania
University of San Diego
University of South Dakota
University of Southern California
University of Texas at Austin
U of TX of the Permian Basin
The University of the Arts
University of Toledo
University of VA College at Wise
University of WA Tacoma
University of West Florida
University of Wisconsin-Eau Claire
University of Wisconsin-Madison
University System of Maryland
Valparaiso University
Wash U School of Medicine
Wayne State University
Weber State University
West Chester University of PA
Western Carolina University
Western Michigan University
Western NE Community College
Wichita State University
Winston-Salem State University
Young Harris College

INTRODUCTION

- ❖ Brad Noyes – Senior Vice President, Brailsford & Dunlavey
 - ❖ Been with the firm since its founding in 1993
 - ❖ Architecture and Real Estate Development Background
 - ❖ Frequent guest lecturer at many national conferences
 - ❖ Frequent author of articles on planning and program management for national publications
 - ❖ Experience with over 200 higher education campuses
 - ❖ Over \$5 billion of program management and consulting
 - ❖ Over 250,000 beds of campus housing planning

KEY INDUSTRY OBSERVATIONS

- ❖ Changing College & University Considerations
 - » State & Federal Budgets
 - » Deferred Maintenance
 - » Credit Rating Impact
 - » Balance Sheet Classification
- ❖ Shifting Student Housing Preferences
- ❖ Importance of Predictive Analytics



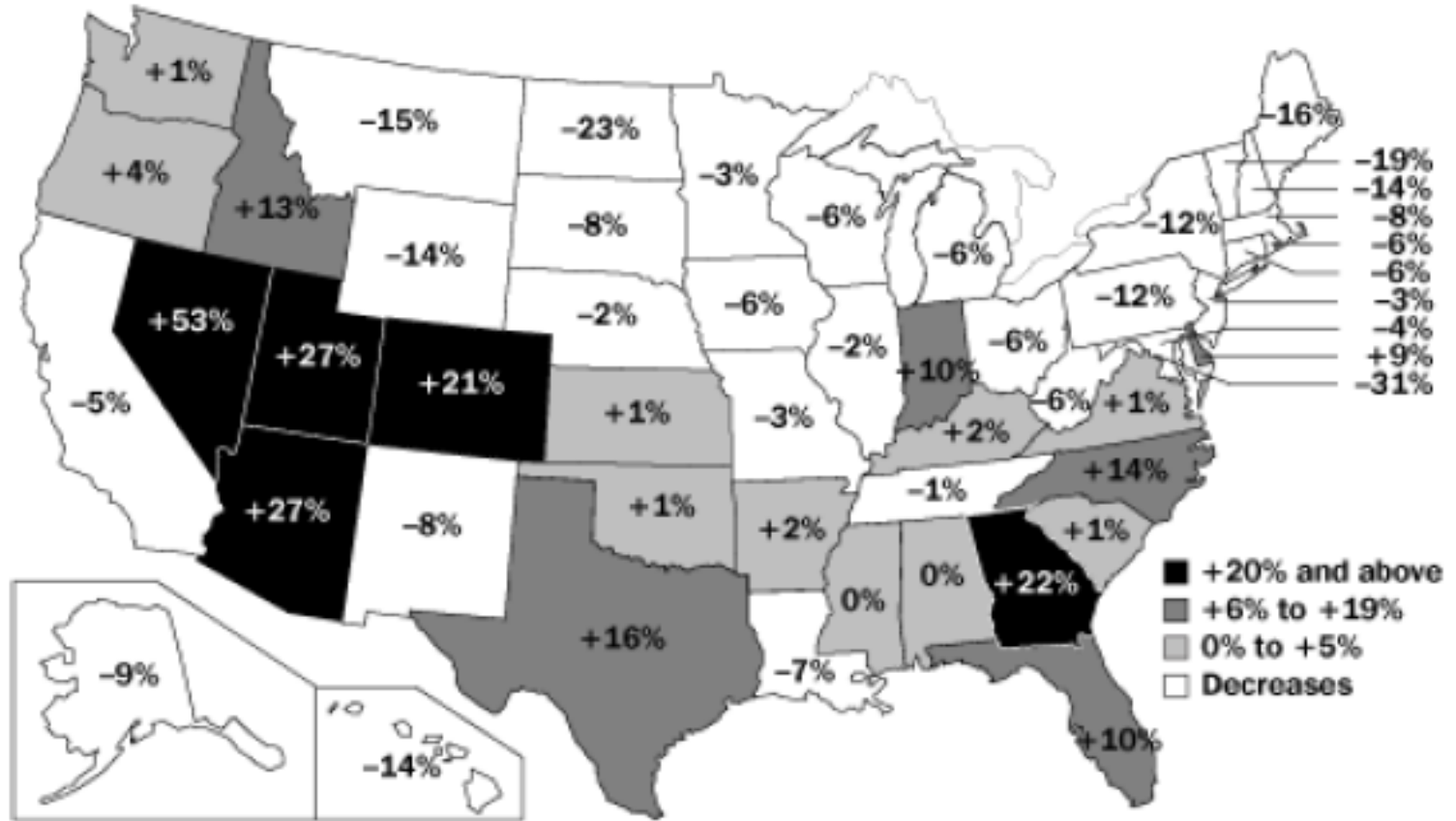
DEMOGRAPHICS

MARKET TRENDS & HIGHLIGHTS

- ❖ 2007 to 2017
 - ❖ High School Graduates → additional 22,000 students (+1%)
 - ❖ Total Enrollment → additional 2.1 million students (+12%)
- ❖ Other factors:
 - ❖ Undergraduates are enrolling for more than 4 years
 - ❖ Rise in non-traditionally aged and international student enrollment
 - ❖ Rise in 2-year college and graduate school enrollment
 - ❖ Community Colleges have expanded their interest
 - ❖ Significant transfer student population impact

MARKET TRENDS & HIGHLIGHTS

Exhibit A-1a: Projected Change in the Number of High-School Graduates, 2006-7 to 2016-17



MARKET TRENDS & HIGHLIGHTS

❖ Generation Y Characteristics

- ❖ Open minded & unpretentious
- ❖ Information hungry
- ❖ Oriented toward personalization – What, How & When
- ❖ Collaborative & Group oriented
- ❖ Connected & Technologically astute
- ❖ Most ethnically diverse American generation where minorities will be the majority by 2040



MARKET CONDITIONS

MARKET TRENDS & HIGHLIGHTS

MARCH 2010 U.S. PUBLIC FINANCE

Moody's
INVESTORS SERVICE

SPECIAL COMMENT

Privatized Student Housing and Debt Capacity of US Universities

All Affiliated Projects Affect University Credit—Indirect Debt Classification Discontinued

Table of Contents:

- SUMMARY OPINION 1
- OVERVIEW OF THE PRIVATIZED STUDENT HOUSING MARKET 2
- CATEGORIZATION OF DEBT LIABILITIES 2
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- UNIVERSITY CREDIT IMPACT VARIES BASED ON SPECIFIC PROJECT CHARACTERISTICS 4
- CONCLUSION 5
- RELATED RESEARCH 7

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Summary Opinion

This special comment updates Moody's treatment of privatized student housing projects as contingent liabilities of affiliated U.S. universities. These types of projects¹ always affect an affiliated university's credit position because student housing is a strategic core business of most U.S. universities—an integral part of a university's student market position, financial management, and capital strategy. The ultimate credit impact of a privatized financing on a university will vary depending on the project specifics, including the project's strategic importance and the university's involvement with the project. It is important to note that the credit impact on a university may not be static, but could vary over the life of the project.

Our rating approach applies to all university affiliated privatized projects, including newer structures being used to finance these projects, such as equity-based models, subordinate debt, and pooled trust structures.

Moody's will discontinue the use of the "indirect debt" category for privatized student housing projects due to the lack of transparency implied by this term and the complexity of the contingent aspects of these projects. Projects currently treated as "direct debt" will remain classified as such due to the more explicit strategic and contractual ties of the projects to affiliated universities. The direct debt category includes all direct borrowings by the university and component units of the university, capital leases, and a small number of privatized borrowings that effectively have similar characteristics to other direct obligations (i.e. separately secured debt of a subsidiary of an affiliated fundraising foundation). The discontinuation of the "indirect debt" category for privatized housing projects, affects only our ratio calculations, it does not change our analytical approach. We will continue to assess these projects for their impact on credit quality of the university.

¹ Excludes off-campus, non-affiliated student housing projects which are 100% developer financed, constructed, managed, and owned by a private developer. These projects are not located on land owned by the university or an affiliated foundation and then ground leased to a private developer.

MOODY'S INVESTORS SERVICE U.S. PUBLIC FINANCE

FIGURE 1
Impact on Credit Quality/Analysis

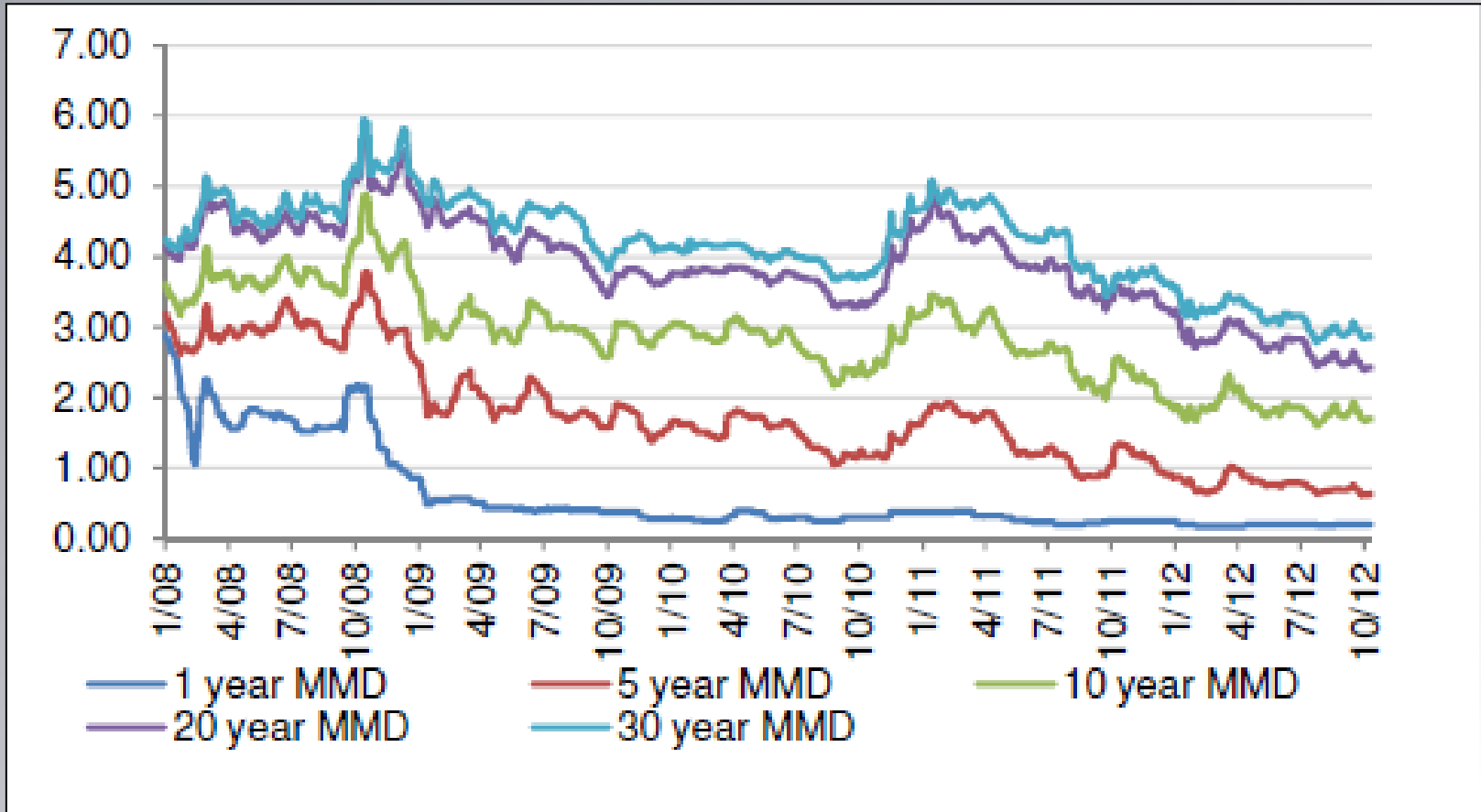
PROJECT CHARACTERISTIC	LIMITED IMPACT	MODERATE IMPACT	STRONG IMPACT
Location	Project located off-campus and not adjacent to campus	Project located on campus or adjacent to campus	Project located in central on-campus location amid university-owned student housing
Ground Lease	Housing not constructed on university or foundation owned land	University or foundation owns underlying land which is ground leased to a third-party	University or foundation owns underlying land which is ground leased to a third-party
Share of Student Residences	Project is minimal amount of student housing (less than 10%)	Project is meaningful amount of student housing (10-30%)	Project is strategic component of student housing (over 30%)
Student Market Segment	Project is not limited to university use	Project is intended to house upperclassmen, graduate, or professional students	Project is intended to house undergraduate students, especially freshmen
Student Services	No university services available at project	Some minor university services available such as shuttle bus	Similar services available as at other university housing
Rental Rates	No university involvement in setting rental rates	University involvement in setting rental rates along with third-party	University substantially controls rental rates
Marketing and Management	No university involvement in management, marketing, or directing students	University involved in management, marketing, or directing students	University markets project as on-campus housing and manages housing
Project Assistance	No direct/indirect assistance	University assists the project to obtain tax-exempt status	University assists the project in obtaining access to same utility rates and other public services as university-owned student housing
Cash Flow	University does not receive residual cash flow or project at end of financing term	University receives residual cash flow or project at end of financing term	University receives previously established cash flow (not dependent on project performance) and/or is required to purchase project at end of financing term
Construction Risk	No interim or other type of financing extended from university or foundation to developer	Implicit university oversight of the project is an important aspect of mitigation of construction risk	Interim loan to construct the facility eliminating construction and lease up risk
Non-Compete Clause	University does not enter into non-compete clause	University agrees to limited lease up or occupancy tests in privatized housing before building additional housing	University agrees to stringent lease up or occupancy tests in privatized housing before building additional housing
Guarantees and Support Agreements	No university guarantee regarding minimum beds or rent levels; no first fill policy or support agreement; if the university markets the privatized student housing project, it is distinguished from other university housing options	Privatized housing is marketed along with university housing with minimal differentiation in the status of the housing; university agrees to recommend housing to students who are on waiting list.	University enters into minimum bed or rent guarantee, first fill policy, or support agreement
Other	No action taken to enforce payment of rental fees on privatized student housing	University offers option to have financial aid applied directly to rental housing payments, but does not take other action if payment is not made	University requires that financial aid be applied to rental payments and withholds transcripts if rental payments are not made on a timely basis

University Credit Impact Varies Based on Specific Project Characteristics

Moody's believes that affiliated privatized student housing projects always impact the credit profile of an affiliated university to some degree. This conclusion holds for the more traditional as well as newer models of privatization that use equity or corporate level debt of a third party to finance the transaction. In Moody's view, the absence of project-level debt alone does not imply that there is no credit impact, particularly if the project can be leveraged in the future.

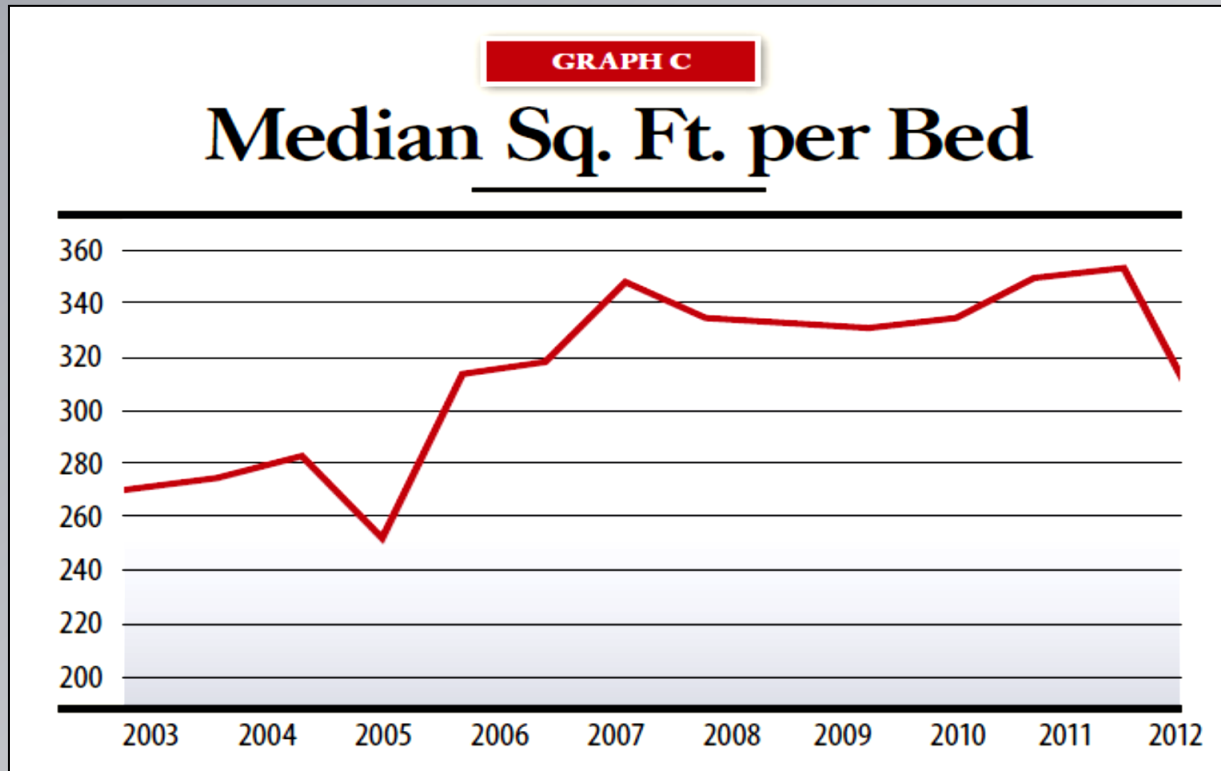
4 MARCH 2010 SPECIAL COMMENT: PRIVATIZED STUDENT HOUSING AND DEBT CAPACITY OF US UNIVERSITIES

MARKET TRENDS & HIGHLIGHTS



Morgan Keegan, Public Finance Market Comment, October 2012 www.morgankeegan.com

MARKET TRENDS & HIGHLIGHTS

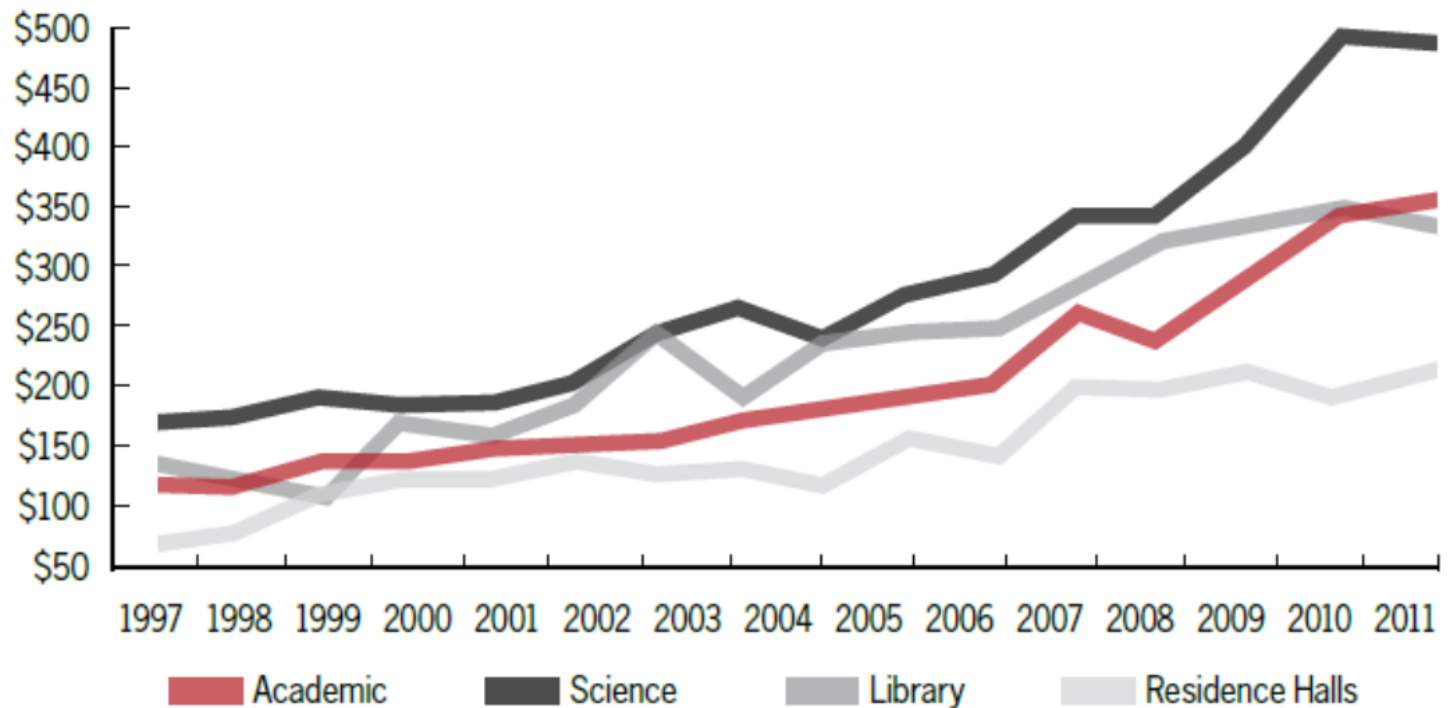


- ❖ 28% increase over 2001 to 2010 period
- ❖ Transition from Traditional Units to Suites and Apartments

Abramson, Paul. "Living on Campus " 2012 College Housing Report. June 2012 www.webCPM.com.

MARKET TRENDS & HIGHLIGHTS

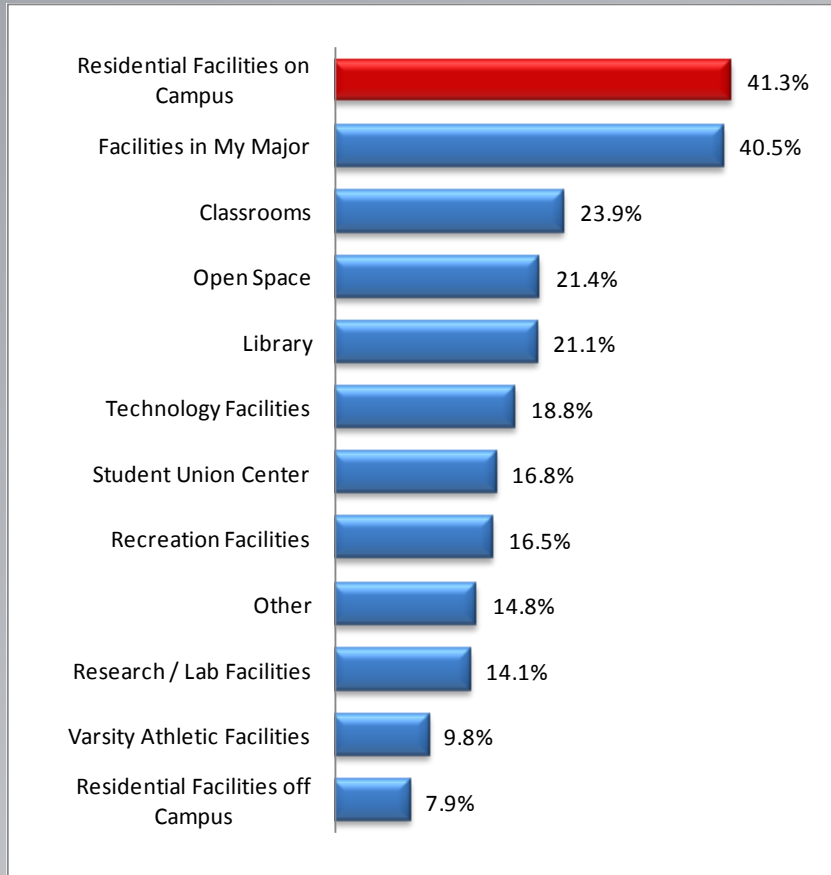
Graph E: Median Cost per Sq. Ft. for College Buildings



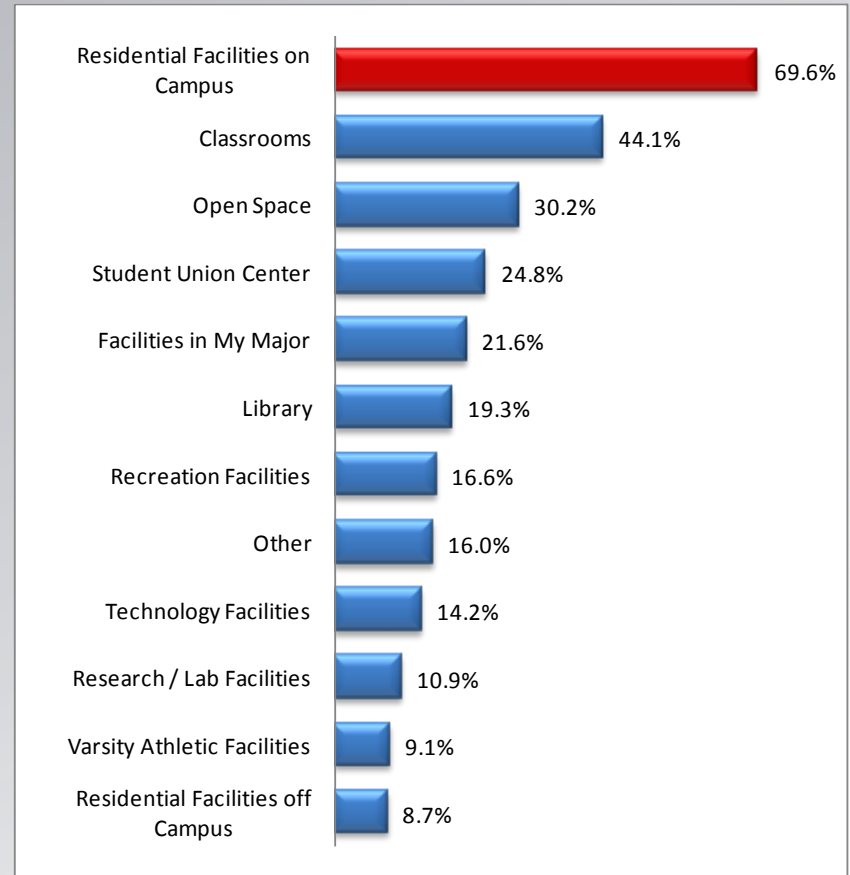
College Planning & Management February 2012 "The 2012 College Construction Annual Report"

MARKET TRENDS & HIGHLIGHTS

Inadequate Facilities at Rejected Institutions



Poorly Maintained Facilities at Rejected Institutions

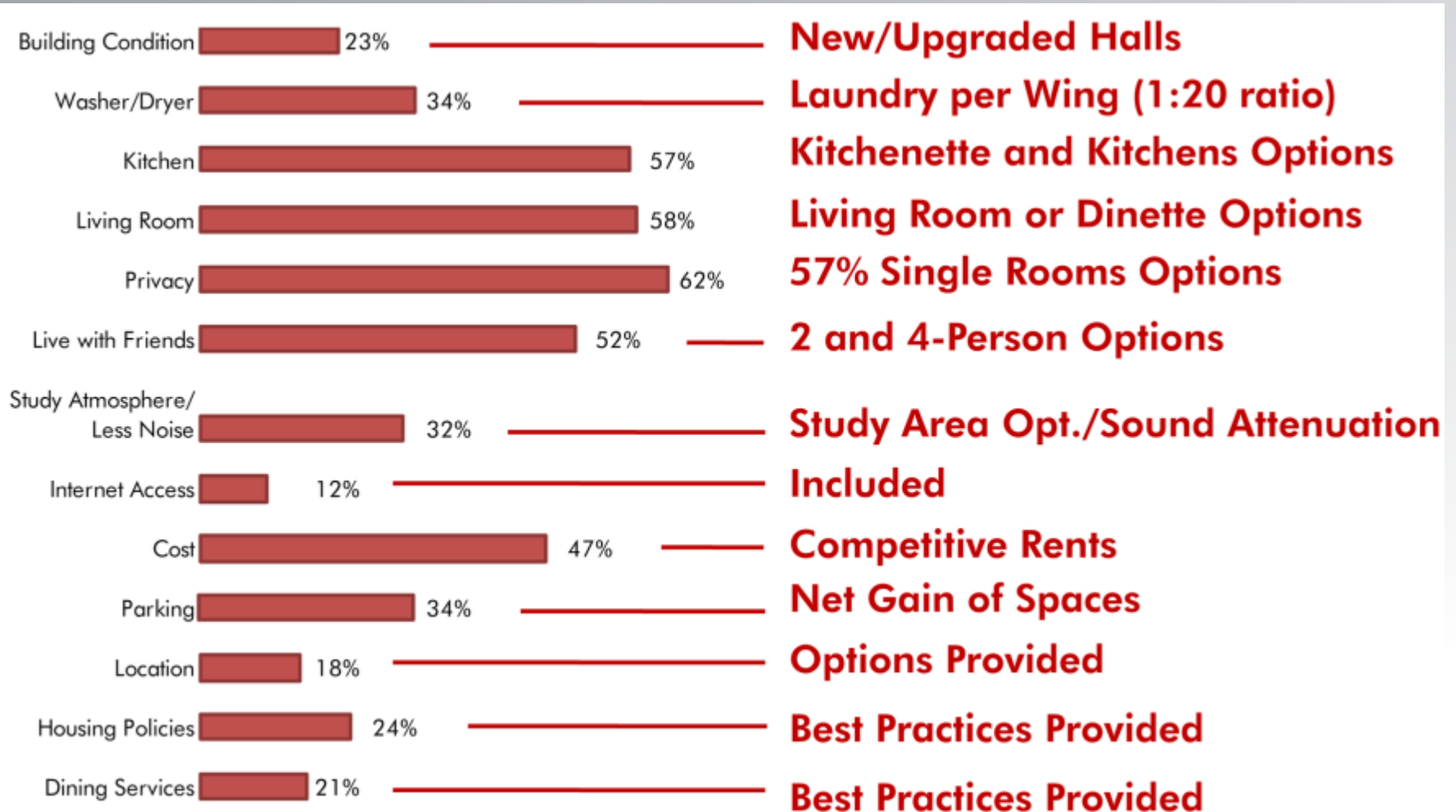


Source: *The impact of facilities on recruitment and retention of students – Reynolds, et al 2006.*

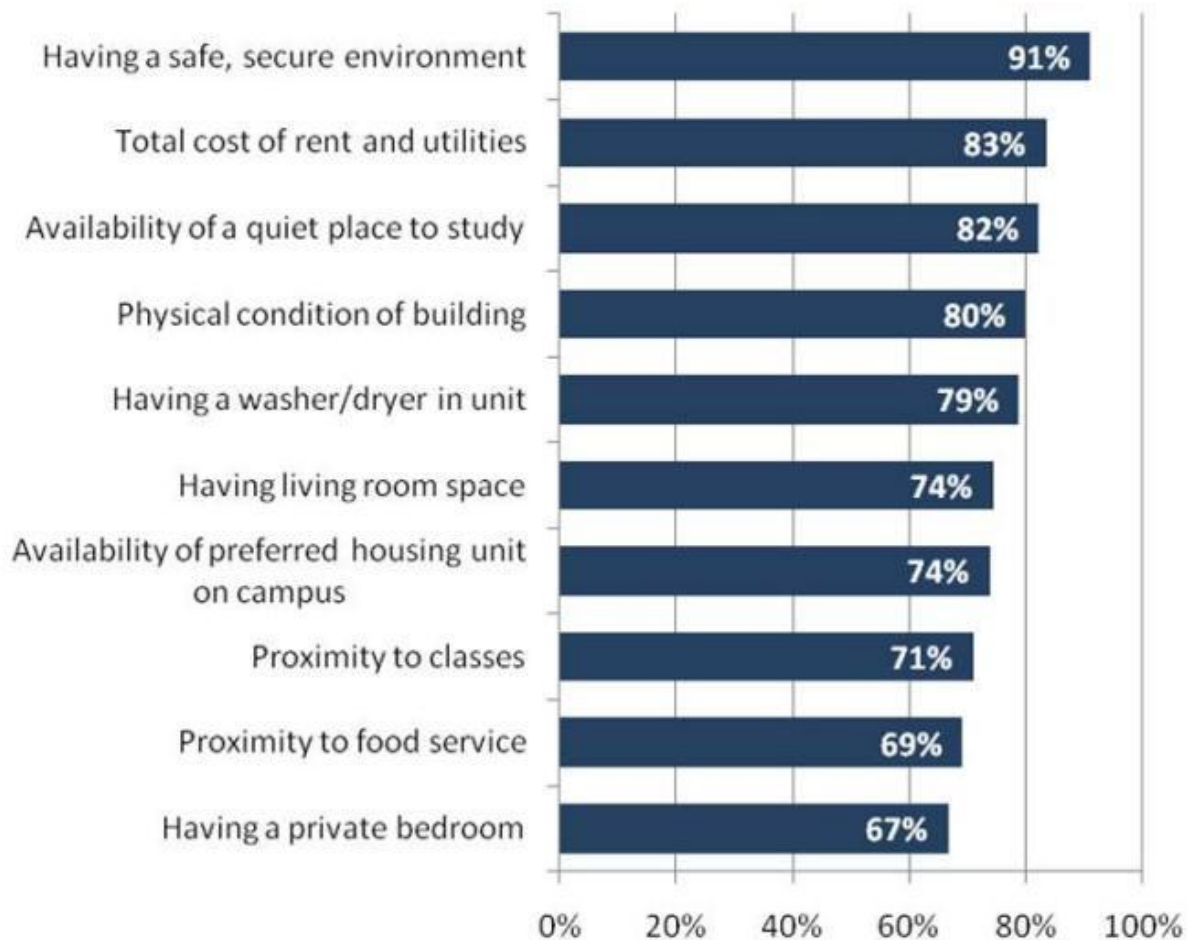


MARKET DEMAND

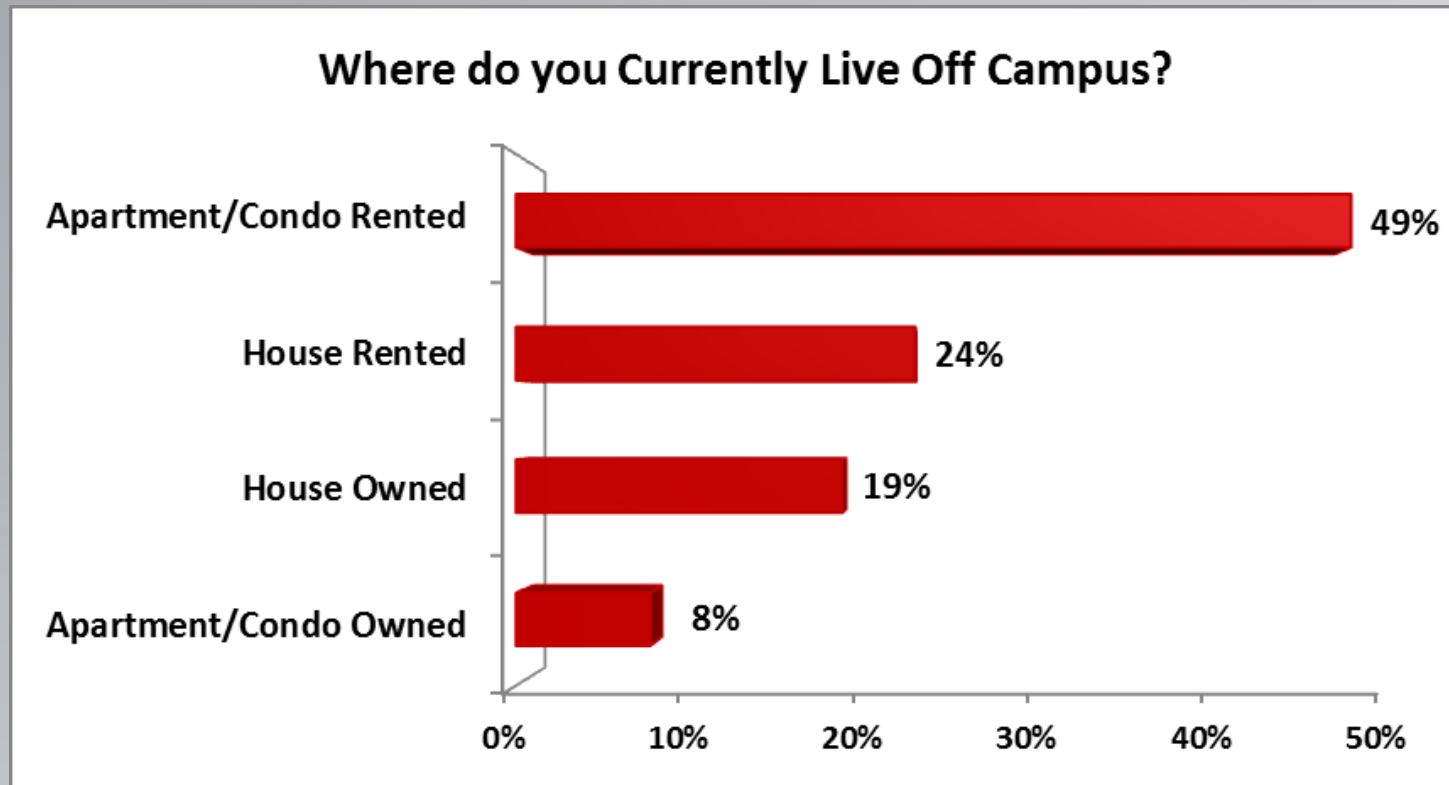
MARKET TRENDS & HIGHLIGHTS



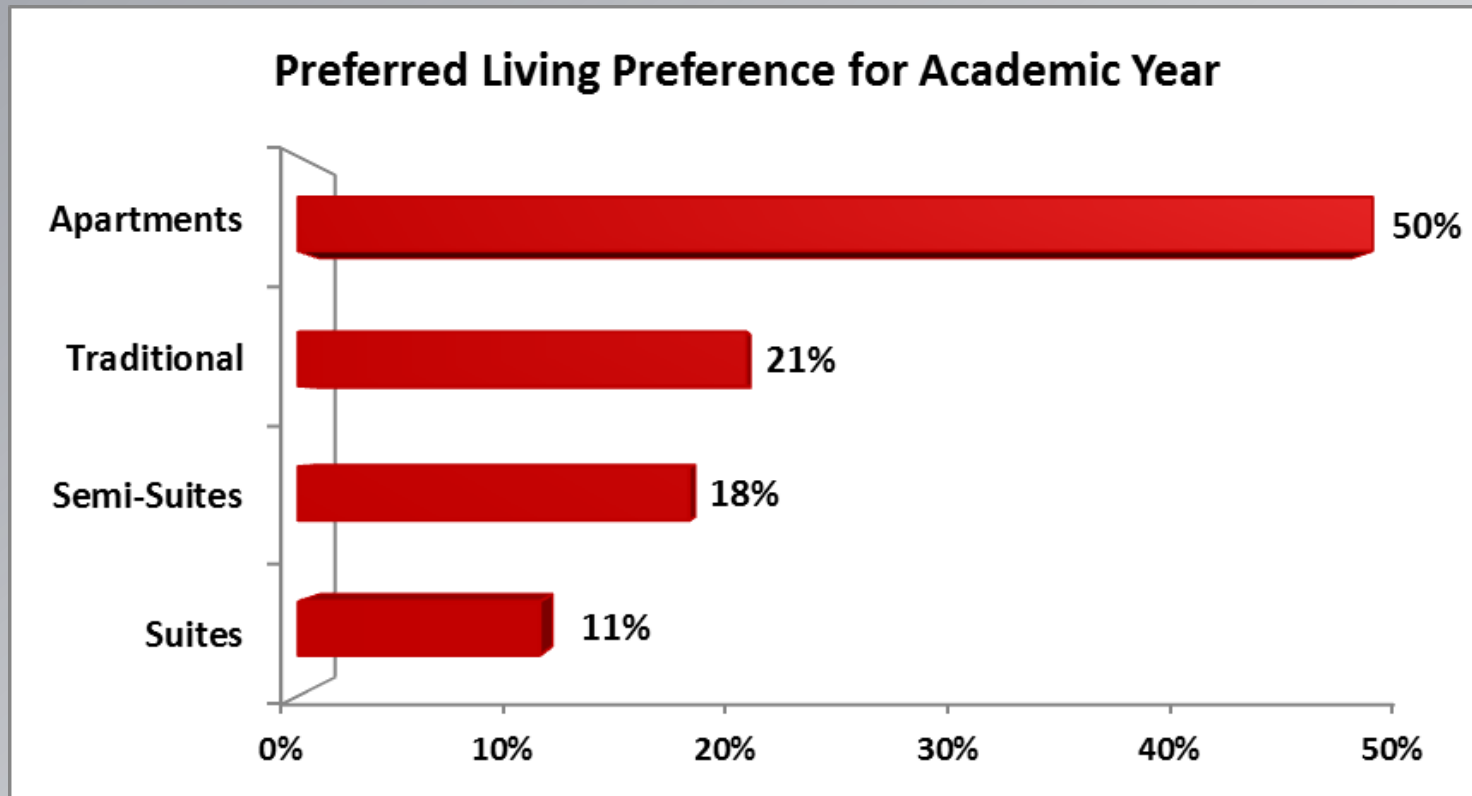
MARKET TRENDS & HIGHLIGHTS



MARKET TRENDS & HIGHLIGHTS

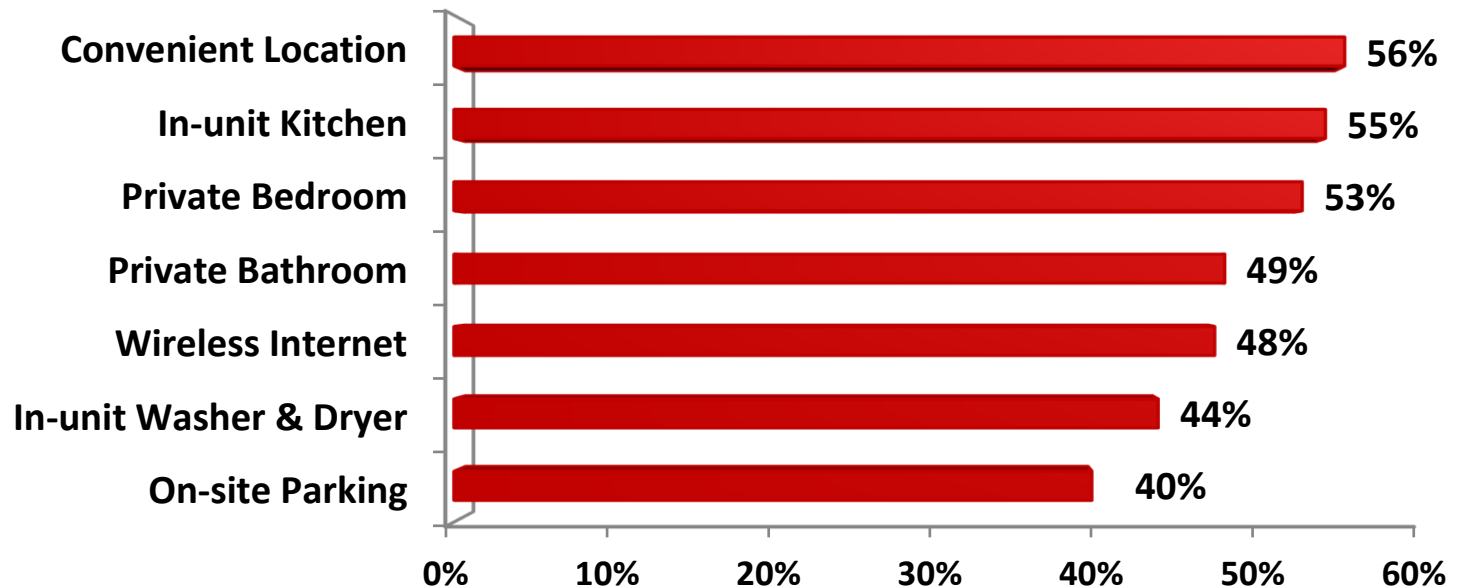


MARKET TRENDS & HIGHLIGHTS



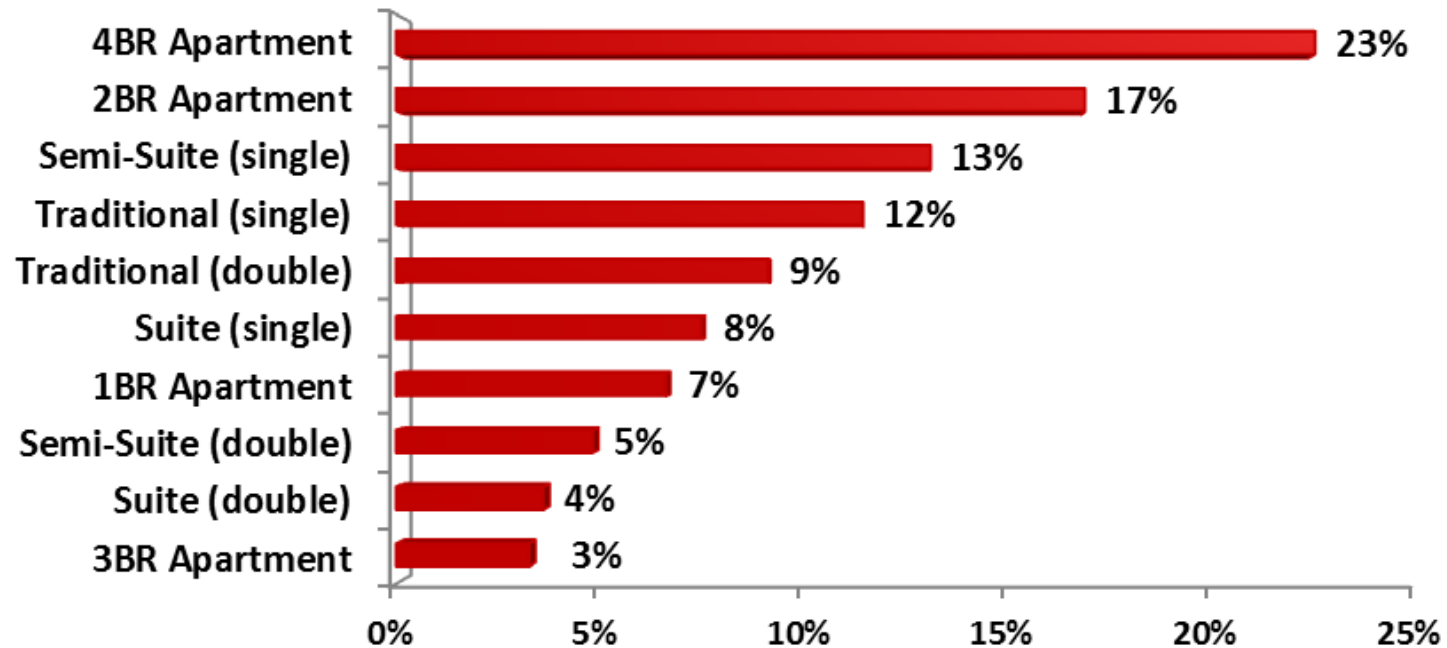
MARKET TRENDS & HIGHLIGHTS

If New Housing is Developed, Which Physical Features & Amenities are Most Important to You?



MARKET TRENDS & HIGHLIGHTS

Preferred Living Preference for Academic Year



MARKET RESPONSE

MARKET TRENDS & HIGHLIGHTS

- ❖ Current economy and long standing deferred maintenance issues causing institutions to find new ways of redeveloping their housing
 - ❖ Housing remains in the forefront of many institutions to maintain competitive advantages
- ❖ Recent forecasts anticipate continued moderate growth
- ❖ Median construction costs for institutional quality housing continue rising
- ❖ Community colleges have growing interests in student housing, particularly due to their changing enrollment demographic. Approximately 30% offer housing at some scale
- ❖ Legislative budget cuts and shrinking endowments have affected institutions ability to finance campus facilities on their own

MARKET TRENDS & HIGHLIGHTS

Categories	2000	2007	Variance	% Change
Total Enrollment	15,312,000	18,249,000	2,937,000	19.2%
Total Off-campus Housing	13,247,872	15,665,612	2,417,740	18.3%
Total On-campus Housing	2,064,128	2,583,388	519,260	25.2%
Total PPP Housing	35,804	110,246	74,442	207.9%
Total Off-campus Housing as % of Total Enrollment	86.5%	85.8%		
Total On-campus Housing as % of Total Enrollment	13.5%	14.2%		
Total PPP Housing as % of Total On-campus Housing	1.7%	4.3%		

Note:

Enrollment data provided by the U.S. Department of Education and the National Center for Educational Statistics.

On-campus housing data provided by the U.S. Census Bureau and the National Center for Educational Statistics.

PPP housing data provided by George K. Baum and Company.

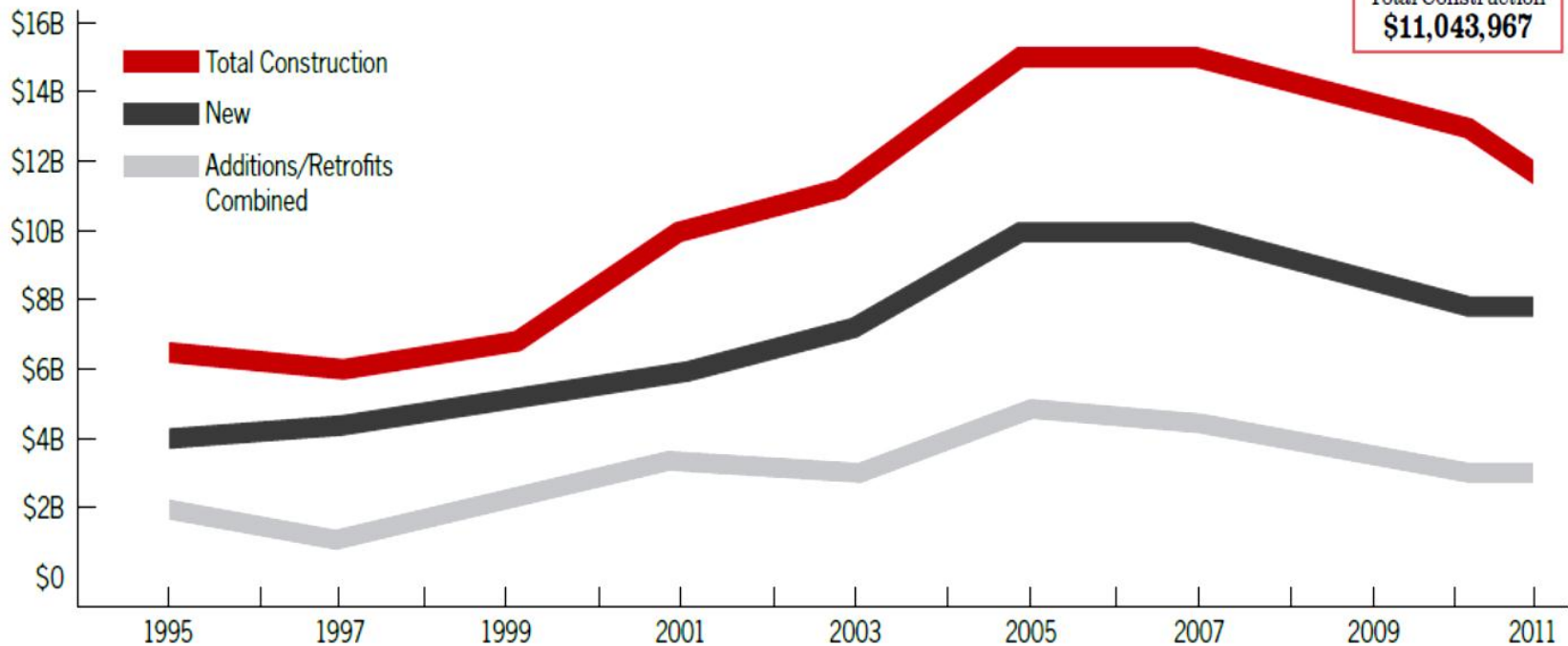
On-campus data includes off-campus properties that are affiliated with the institution (i.e. public-private partnerships).

- Of the 4,300 plus higher education institutions, 2,252 offer on-campus housing
- On campus housing grew 25.2% from 2000-2007, exceeding total enrollment growth
- Total on-campus housing as a percentage of total enrollment grew from 13.5% to 14.2%

MARKET TRENDS & HIGHLIGHTS

HISTORY OF COLLEGE CONSTRUCTION

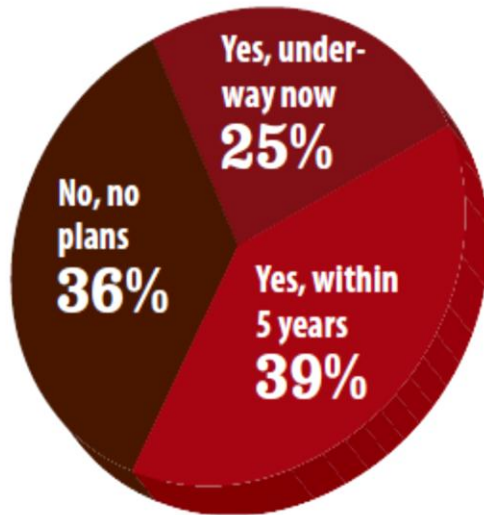
COLLEGE CONSTRUCTION COMPLETED (\$000's), 1995 THROUGH 2011



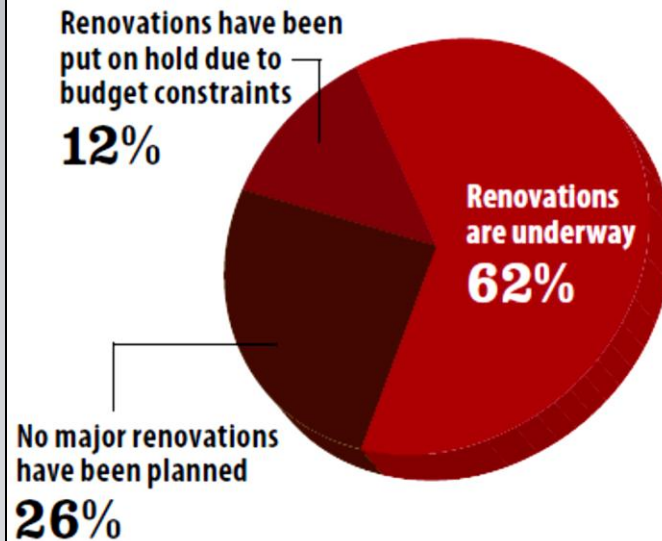
College Planning & Management February 2012 "The 2012 College Construction Annual Report"

MARKET TRENDS & HIGHLIGHTS

Is your institution planning to increase the number of residence hall beds on campus?



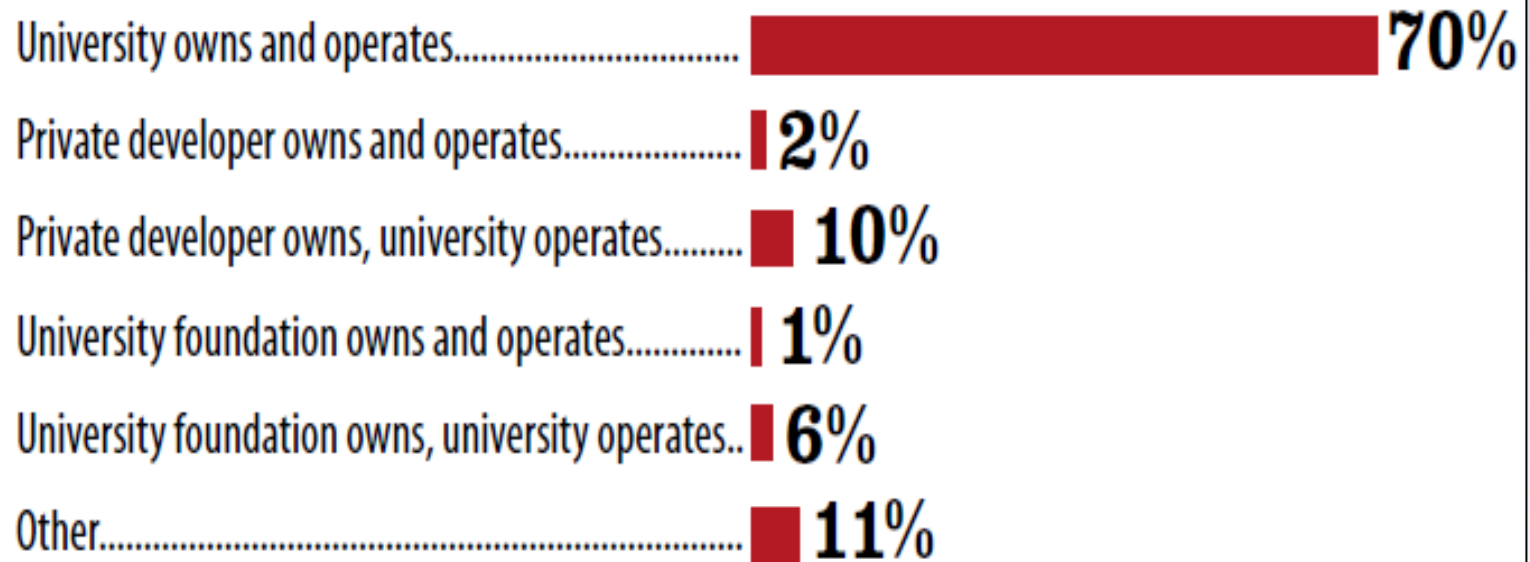
What are your plans for upgrades/renovations to the residence halls on your campus?



Abramson, Paul. "Living on Campus " 2012 College Housing Report. June 2012 www.webCPM.com.

MARKET TRENDS & HIGHLIGHTS

Who will own and operate the new residence halls being planned?



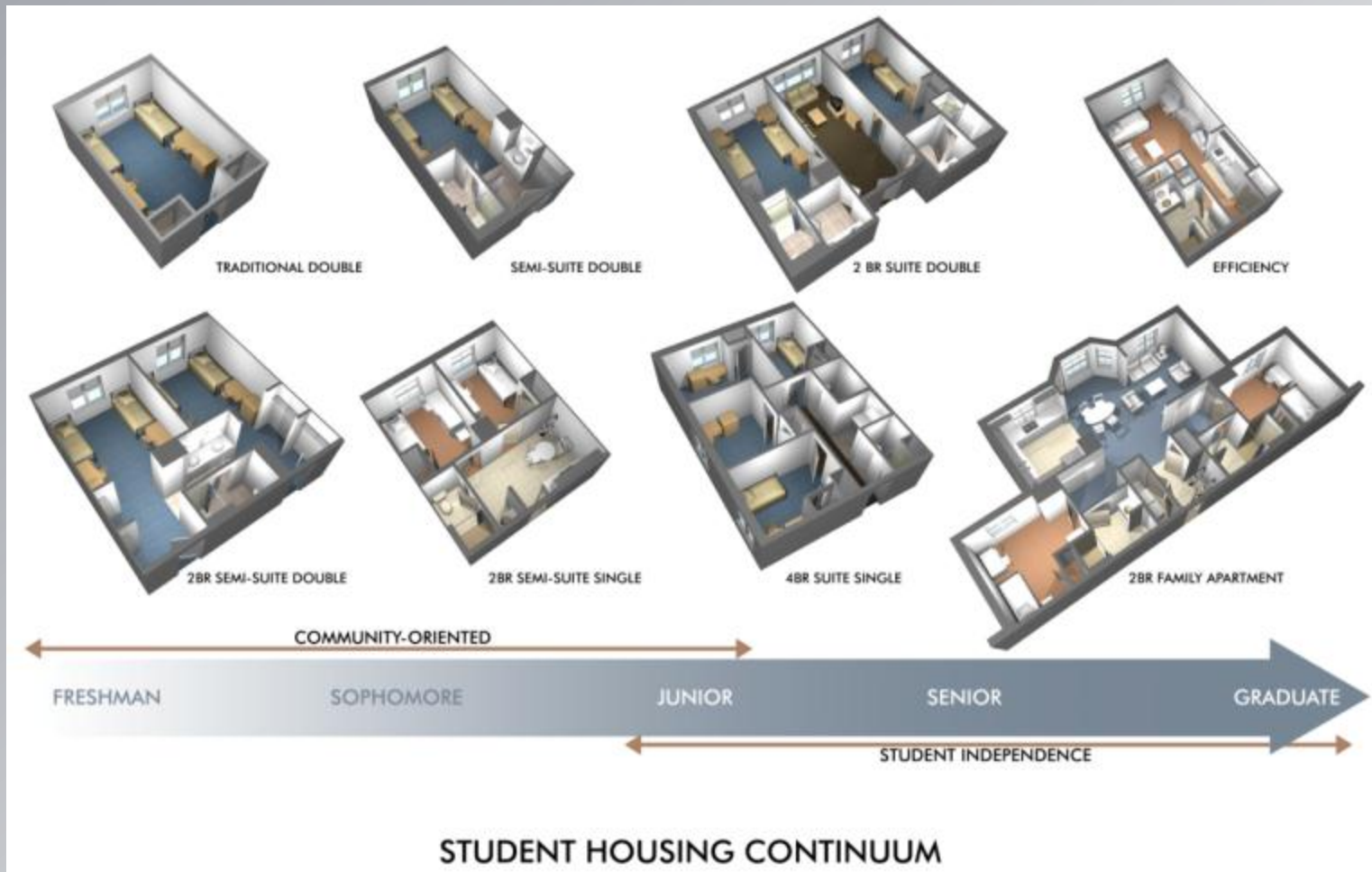
Abramson, Paul. "Living on Campus " 2012 College Housing Report. June 2012 www.webCPM.com.

MARKET TRENDS & HIGHLIGHTS



FOUR LEVELS OF COMMUNITY

MARKET TRENDS & HIGHLIGHTS



MARKET TRENDS & HIGHLIGHTS

Mixed Use / New Urbanism

- ❖ Walkable Neighborhoods
- ❖ Campus Edge Proximity
- ❖ Student Housing to support retail
- ❖ Residents have best of both worlds





PLANNING RESPONSE

PLANNING RESPONSE

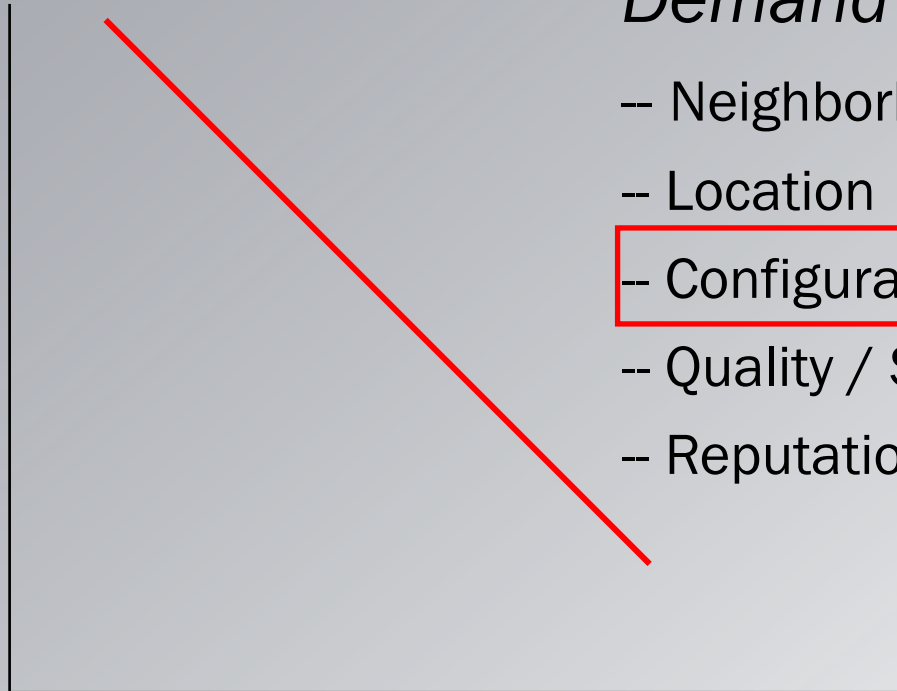
- ❖ Product & Market Segment Specific Capture Rates
- ❖ Student Demand by Unit Configuration Price Point
- ❖ Influential Factors on Behavior that Change the Market

Predictive Analytics & Predictive Modeling



PLANNING METHODOLOGY

P

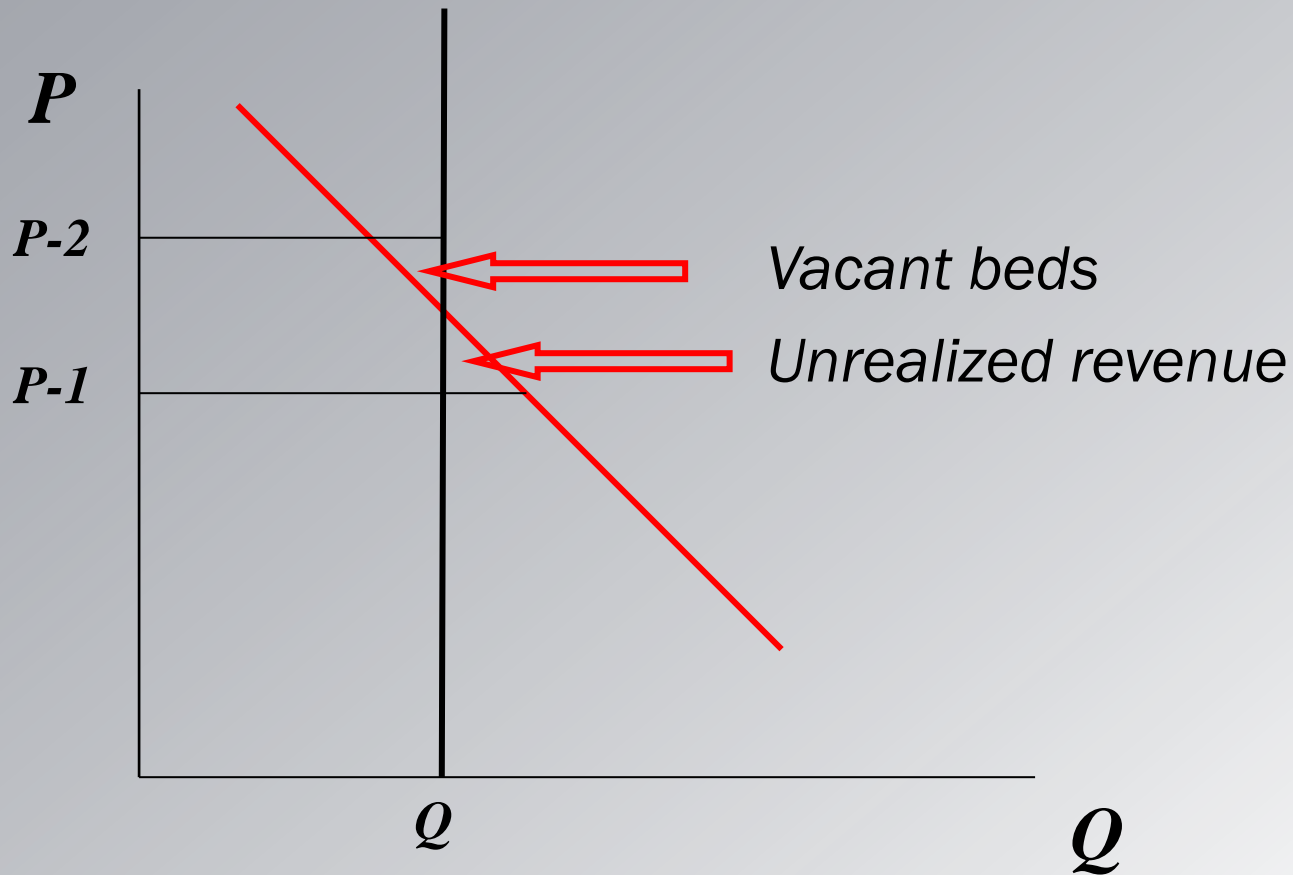


Demand is Product Specific

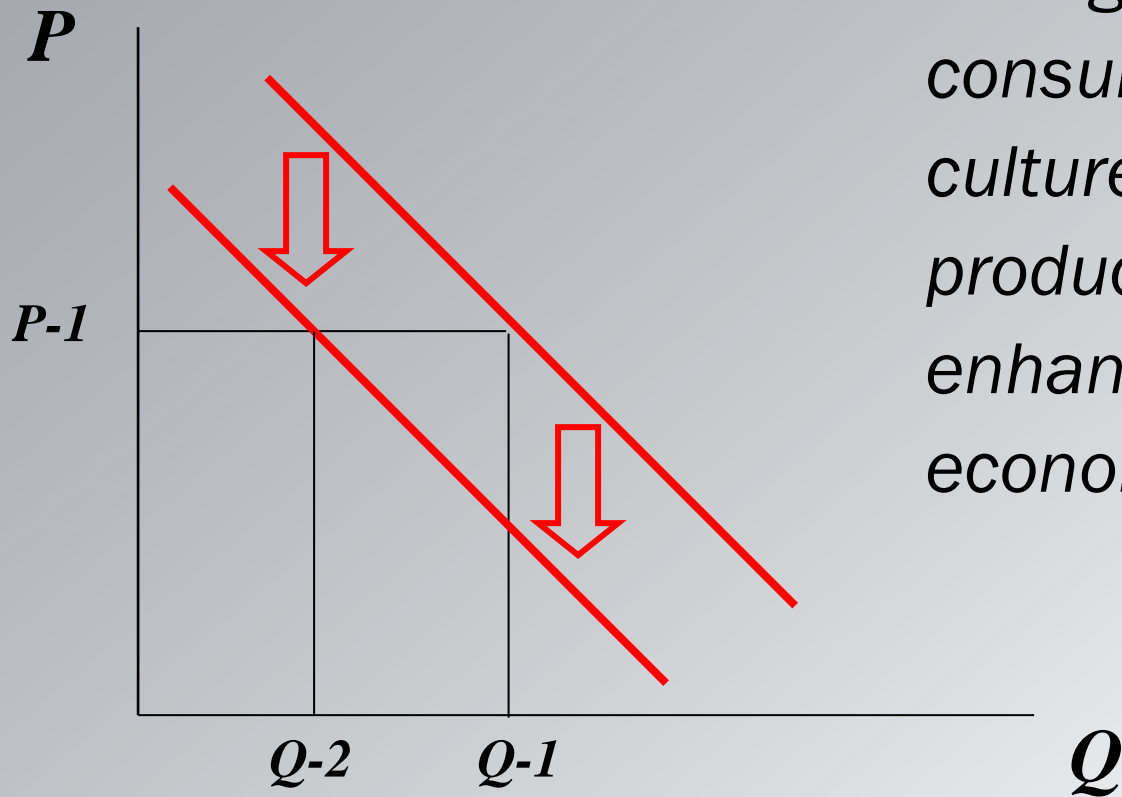
- Neighborhood Attributes
- Location
- Configuration / Features / Amenities
- Quality / Services
- Reputation

Q

PLANNING METHODOLOGY



PLANNING METHODOLOGY



Changes in population, consumer tastes, popular culture, alternative products, product enhancements and the economy shift demand

PLANNING METHODOLOGY

1. Strategic Asset Value
2. Demographic Analysis
3. Focus Group & Intercept Interviews
4. Off-Campus Market Analysis
5. Competitive Context Analysis
6. Student Survey
7. Demand Analysis
8. Financial Analysis
9. Phasing & Feasibility Analysis



CASE STUDIES

CASE STUDIES

Which students
should we house on
campus?

CASE STUDIES

WHICH STUDENTS SHOULD WE HOUSE ON CAMPUS?

- ❖ Phased introduction of “college house” model
- ❖ Simplify rate structure and assignment policy
- ❖ Create sophomore, junior, senior “college houses”
- ❖ Implement sophomore housing guarantee

PROCESS & TOOLS

STRATEGIC VISIONING

MARKET ANALYSIS

CASE STUDIES ANALYSIS

STUDENT SURVEY

DEMAND PROJECTIONS

FINANCIAL ANALYSIS

SITE ANALYSIS

CAPITAL PROJECTS PHASING

CONSENSUS BUILDING

CASE STUDIES

How do on campus
housing respond to
enrollment growth?

CASE STUDIES

HOW DOES HOUSING RESPOND TO ENROLLMENT GROWTH?

- ❖ Increase first year housing in response to enrollment
- ❖ Address upperclassman housing lottery system
- ❖ Impact of new west campus housing project
- ❖ Poor quality graduate student housing supply

PROCESS & TOOLS

STRATEGIC VISIONING

MARKET ANALYSIS

STUDENT SURVEY

DEMAND PROJECTIONS

FINANCIAL ANALYSIS

CAPITAL BUDGETING

CAPITAL PROJECTS PHASING

PPP ANALYSIS

CONSENSUS BUILDING

CASE STUDIES

How do changing
student demographics
impact on campus
housing?

CASE STUDIES

HOW DO CHANGING STUDENT DEMOGRAPHICS IMPACT?

- ❖ Graduate housing is mission critical
- ❖ Attract more out of state & international students
- ❖ Strong off campus market targeting upperclassman
- ❖ Develop new junior, senior, grad community

PROCESS & TOOLS

STRATEGIC VISIONING

MARKET ANALYSIS

STUDENT SURVEY

DEMAND PROJECTIONS

PPP ANALYSIS

CONSENSUS BUILDING

QUESTIONS & ANSWERS



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