

# Complementary Competition

*The purpose-built student housing market in Austin offers price points for every budget, and many say there's still room for even more beds.*

By Lynn Peisner

The University of Texas at Austin is known as an academically competitive university with appeal to prospective students who not only desire its prestigious degree, but who also want to receive their education in one of the most culturally dynamic (and fun) cities in the country. St. Edward's University and Austin Community College also draw many students.

The university keeps its enrollment close to the 50,000 mark, even though the number of applications rises each year, which means the University of Texas is extremely selective in the caliber of student it admits. It has a reputation of becoming even more selective each year. Historically, the university itself has housed a very small number of its students.

In the 1960s, a few private developers built dorms off, but near, campus, such as The Dobie Center and The Castilian. In the 1990s, the Riverside area of Austin, which is across the Colorado River and approximately three and a half miles from campus, saw a development spurt.



EdR developed, financed, owns and manages 2400 Nueces, a 304-unit, 622-bed, 16-story community.



The 757-bed Callaway House Austin, owned by ACC, opened in August 2013.

"The first apartment-style student housing with amenities was built by JPI out of Dallas," says EdR Executive Vice President and Chief Investment Officer Tom Trubiana, who has extensive experience in student housing in Austin dating back to student housing property management in the 1970s, including managing The Castilian.

"Back then, [building near campus] was virtually impossible because you couldn't acquire significant land mass, and zoning laws were such that you couldn't get close to campus. So the university was supportive of the growth of the Riverside submarket and ran a UT shuttle between campus and Riverside. From 1996 to the early 2000s, there were some 7,500 beds of fully amenitized, purposed-built student housing developed."

Even with the lure of Riverside, many students were still scrambling to find accommodations in the market. For a while, students were cramming into single-family homes, condos or duplexes usually run by absentee land-

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lords. Austin citizens began mounting a strong resistance to what they call “stealth dorms,” maxed-out homes in established neighborhoods that draw student renters to the dismay of neighbors and homeowners.

In response, the city rezoned an area just west of campus into the University Neighborhood Overlay District in 2003, which allowed for high-density development. The idea was to corral students out of the established neighborhoods and into an area of their own, one that was close to campus. According to Trubiana, 17 projects were built in the West Campus area from 2003 until 2013. One of them is 2400 Nueces, a 304-unit, 622 bed, 16-story high-rise EdR opened for the 2012-2013 school year via a 60-year ground lease with UT. The property is leased to 100 percent occupancy for this year and next.

“There are a lot of student housing companies in Austin, and we’re in Memphis, so some thought it was unusual, but I’m a Longhorn at heart, so we decided to pursue it,” Trubiana says, adding that both his children have attended UT. “In 2010, we were selected to build 2400 Nueces.”

In a 2013 investor presentation, American Campus Communities, based in Austin, presented a case study about its hometown. The presentation conveyed to investors that Austin is not oversupplied because even though enrollment remains the same, there is still not enough amenity-rich, purpose built product to meet the demand for it. “New supply is modernization, and that is opportunity,” says ACC President and CEO Bill Bayless. “We don’t believe oversupply is true. Since 1996, Austin has developed more beds than any other student housing market in the United States, but there is still a lack of modern student housing for students and for parents. As student housing is modernized, it’s being fully absorbed.”

The presentation chronicled the history of housing at UT, noting a long period stretching from the 1920s to the 1960s of students primarily living in older rental homes or duplexes governed by absentee landlords, with no amenities, and very little oversight of the properties. The report cites that the property JPI opened in the Riverside area in 1996 became fully leased in less than two weeks.

According to research firm Axiometrics, rents in the new, modern, purpose-built student housing projects in West Campus, which is approximately half a mile from campus, average \$935 per bed, while rents in the Riverside area average \$494 per bed. Axiometrics has parsed the data, indicating that proper-



The 1,026-bed 26 West community is owned by American Campus Communities. ACC has dramatically increased its presence in the West Campus market in the past few years.

ties built since 2012 are commanding \$974 on average per bed and that overall in Austin’s purpose-built stock, individual bed prices can range from less than \$600 to more than \$1,300, depending on neighborhood and floor plan. The number of purpose-built beds in Austin, per Axiometrics’ data, is approximately 17,000. Average rent growth here is 4.2 percent.

“If you add up all of the purpose-built, off-campus product at the University of Texas, then you also add the amount of beds that are located on campus, that still only satisfies about

47 percent of enrollment,” says Jay Denton, vice president of research with Axiometrics. “So you have 53 percent of students living somewhere that is either not on campus or in a purpose-built multifamily property. I think that is an important statistic.”

Today, Riverside competes with its tony neighbors down the shuttle line in West Campus by offering a significantly more affordable price point. Managing in this market, according to Asset Campus Housing (ACH) Executive Vice President Stephen Mitchell, means focusing on





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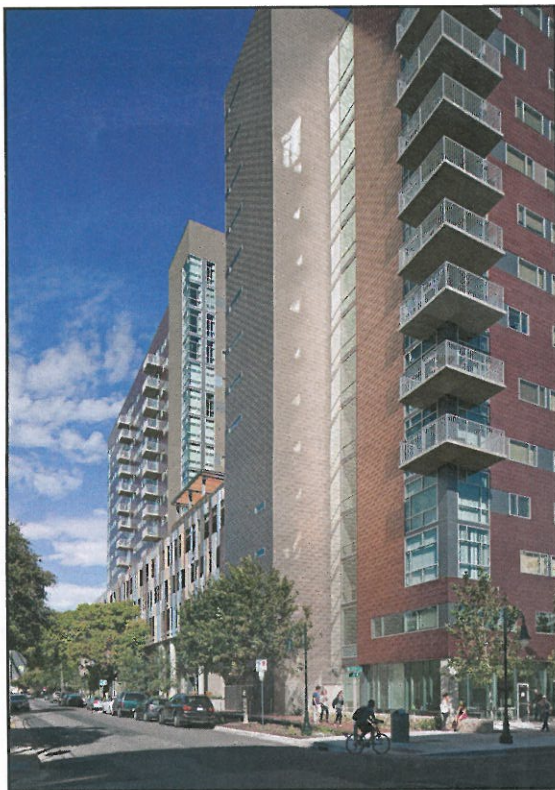
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EdR's 2400 Nueces opened July 2013. The \$63.9 million development was financed through the REIT's equity plan. Page Southerland Page was the architect. Hansel Phelps Construction Co. was the general contractor.

giving students good value for their housing dollars.

ACH manages five properties in Riverside, totaling approximately 3,700 beds. The properties are large, totaling between 648 and 810 beds. Current occupancy among them is 95.4 percent. Mitchell says the keys to success in Riverside lie in capital improvements and in knowing who your students are — giving away concert or South by Southwest tickets, Mitchell says, has been very effective in signing leases in Austin.

"The greatest driver in NOI in the past few cycles comes from property investments," he says. "Riverside went through a bit of a trough four or five years ago and struggled with the addition of West Campus properties. Some of it was age. Some of it was struggling with being so far from campus. But that's rebounded significantly in the past several years. The occupancy is 95.4 percent now, but about five years ago, it was in the upper 80s to 90 percent. The

rebound is a function of a couple of factors: That the properties in West Campus are offered at a significantly higher price comparatively, and the physical enhancements recently made to many Riverside area properties have been attracting more students across the river."

With nearly a \$500 difference in average price per bed for rent, the Riverside area remains attractive to those students who are budget-minded. "Austin is an enormous market," Mitchell says. "The profile of students mimics the national average in terms of rental incomes, so about five percent should be able to afford the nicer, newer product."

Bayless says American Campus Communities planned a strategic approach to the Austin market, with price-awareness as a driver of this tactic. ACC exited Austin in 2005 and re-entered in 2010. "We sat back and watched," Bayless says, "and we knew we would enter the market again in very big way. Our criteria is focused on pedestrian submarkets with high barriers to entry. When the city passed the overlay district, it eliminated barriers to entry virtually overnight. This caused a frenzy in the escalation of land prices, and construction pricing soon reached an all-time high. This caused too many developers to pro forma rental rates significantly above the market's tolerance. All beds were fully absorbed but not at pro forma rents."

Bayless says ACC purchased approximately 3,000 of those apartment styles beds at valuations based off of stabilized market rents when it re-entered Austin between 2010-2012. ACC also began developing its own project in 2011, Callaway House, when land and construction prices went down.

"This enabled us to develop at the appropriate rental rate," Bayless says. "Quality student housing product of a modern nature is needed desperately and will be fully absorbed as they're brought into the right locations. However, a common mistake by developers is that too many are focused on the highest-tier rental rate price point and are overbilled. This leads to great acquisitions two to three years after the development boom at more stabilized rates."

Consistent with the way ACC says it builds for the "masses not the classes," rents at Callaway House are approximately \$1,500 per year less than living on campus in the university's newest facilities, Bayless says. ACC also owns one of the oldest off-campus private dorms in the city, The Castilian, a residence hall property that it acquired in the Campus Acquisitions portfolio of 2012, along with two other Austin properties. "We know the Austin market better than anybody," Bayless says. **SHB**



The 623-bed Castilian was purchased from Campus Acquisitions in a 15-property portfolio acquisition in 2012.



ACC's The Block in Austin contains 1,555 beds.