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DEAL OF THE WEEK

Student Housing Goes Upmarket

Flood of New Developments Is Squeezing Small Owners

By DAWN WOTAPKA

Dec. 3, 2013 7:32 p.m. ET

James Madison University students long ago dubbed the Ashby Crossing housing complex "Trashby" because of its age and rowdy residents.

The moniker stuck even after the owner changed the name of the 1,150-bed community to University Fields a few years ago. Now the complex, located in Harrisonburg, Va., has a bigger problem. In November, University Fields fell into foreclosure, the result of rising vacancies as students shunned the property in favor of newer developments with better features.



University Fields, a housing complex for James Madison students, fell into foreclosure in November.
Elliot Tamir

Real-estate analysts are worried that the foreclosure of University Fields is a sign that the flood of new student housing—much of it from private-equity firms and public real-estate investment trusts—is starting to squeeze out smaller owners.

Developers have built approximately 310,000 off-campus student beds in the past decade. A record 51,000 new off-campus beds were delivered this academic year alone, with more than 50,000 expected in 2014, according to real-estate research firm Axiometrics Inc.

While the new developments are welcomed by students who get more choices and fancier amenities, some private owners of aging properties are having a hard time competing.

So far, occupancy rates for private, off-campus student housing are holding strong as landlords slash rents and offer last-minute deals to woo students who normally live on campus.

But there are warning signs. Many landlords waived application fees and threw in gift cards to fill beds this year, "said Jay Denton, vice president of Axiometrics. "More than 0.5% nationwide this year.

communities have become delinquent on their debt or run into other financial trouble.

But rising supply is increasing distress: 34 properties are in the foreclosure process or under ownership of the lender, according to RCA. In 2012, 28 distressed student-housing properties were sold to another party, up from 19 in 2011.

New student-housing complexes are particularly tough on older communities with shared bathrooms, which are far less common in new construction.

University Fields was built in two phases, in 1989 and 1997, and sold to River Crossing Partners LP in 2003 for \$31 million. While the community did well for several years, it lost tenants as newer properties opened nearby. Occupancy tumbled to as low as 50%.

A River Crossing spokesman said the layout, which includes shared bathrooms within the apartments, made it less competitive. In late October, Vesper Holdings, a Manhattan-based real-estate investment fund, purchased University Fields' delinquent loan for \$19 million, a steep discount to the roughly \$25 million owed, and took possession of the property.

Douglas Kligman, Vesper's chief investment officer, says that while the foreclosure of University Fields "demonstrates that the impacts from the recent wave of student housing development are now entering a more ominous stage," he also says the foreclosure means "a window is opening up" for investors to find bargains.

Vesper paid \$16,500 a bed, well below the \$36,000 it would cost to build today, said Vesper co-founder Isaac Sitt, whose firm has purchased some 6,000 student-housing beds in the past three years. "We don't see the need to do new construction. There's still value out there."

To win back students, Vesper plans a massive renovation project that will include a resort-style pool with a new deck, private cabanas and complimentary poolside towel and lotion service. For now, Vesper is focused on filling beds instead of raising the rents that average about \$370 per bed per month.

Write to Dawn Wotapka at dawn.wotapka@wsj.com

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