What Do the Capital Markets Tell Us About Prospects for Lending and Investing?

Brian Ward, President, Capital Markets |

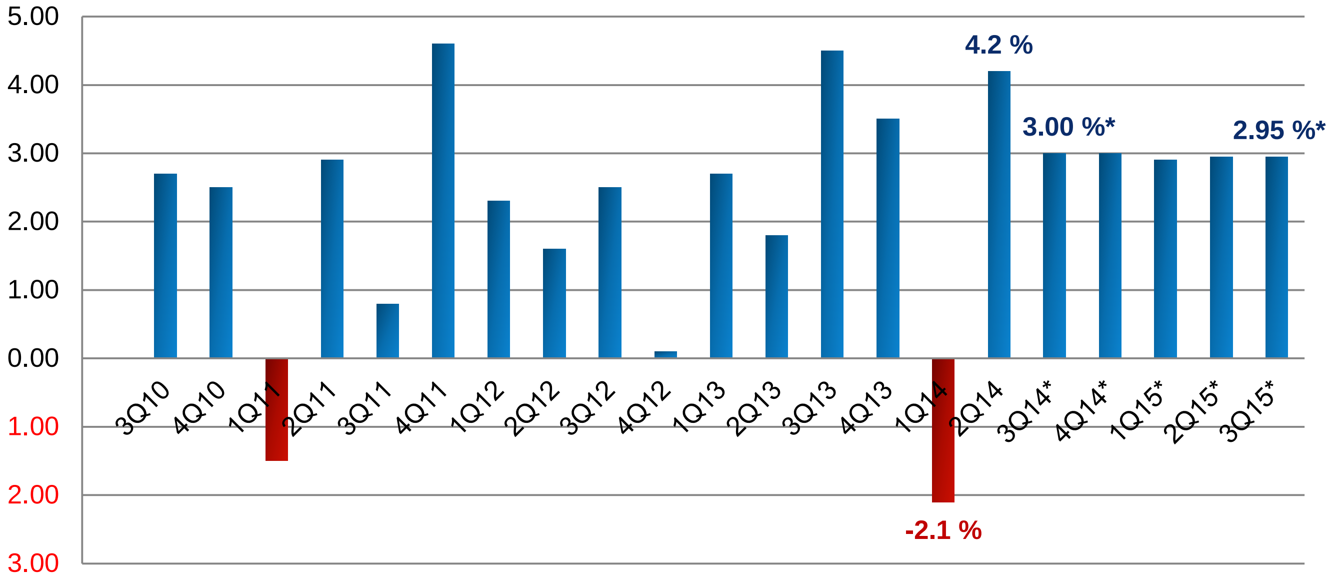
Dorothy Jackman, Managing Director, Student Housing Group | September 30, 2014

U.S. Economic Landscape

GDP

U.S. GDP grew by 4.2% during the second quarter

U.S. Gross Domestic Product Growth Rate & Forecast

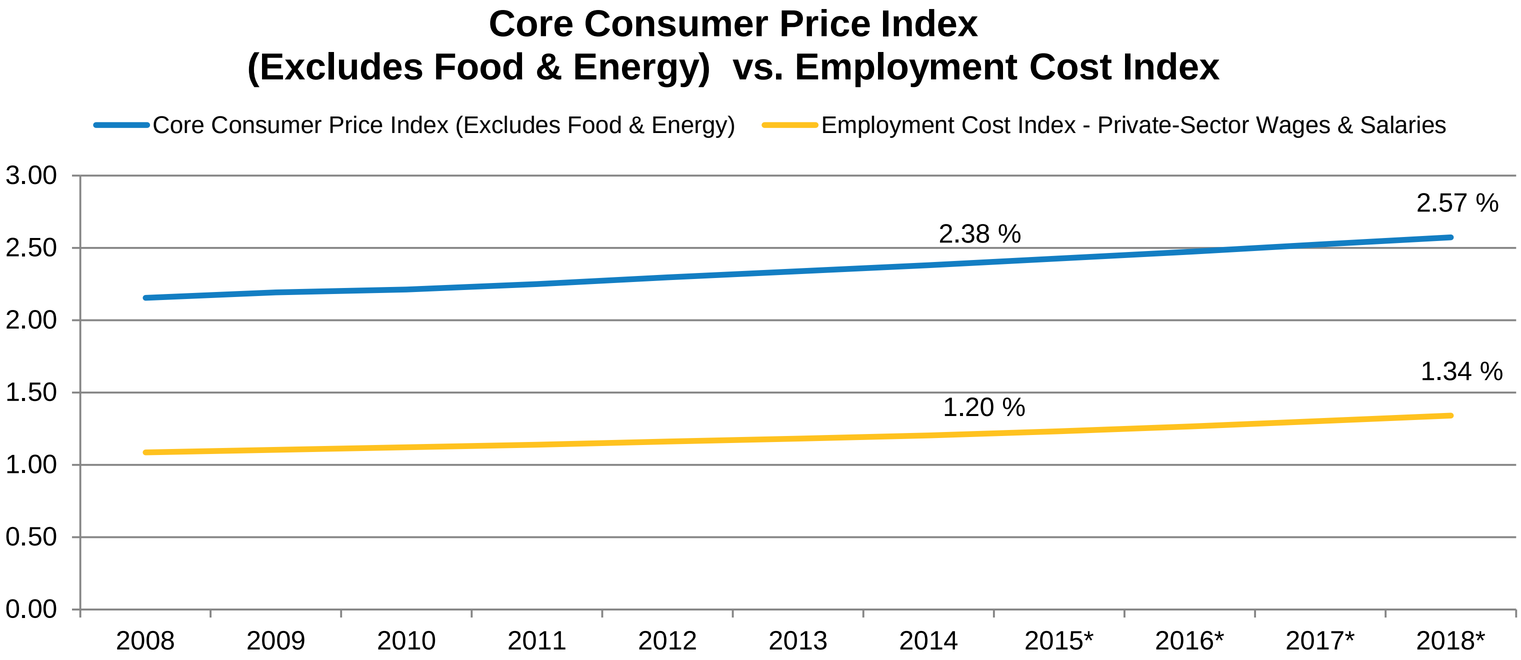


Source: IHS Global, Bloomberg

U.S. Economic Landscape

Inflation Rate vs. Wage Growth

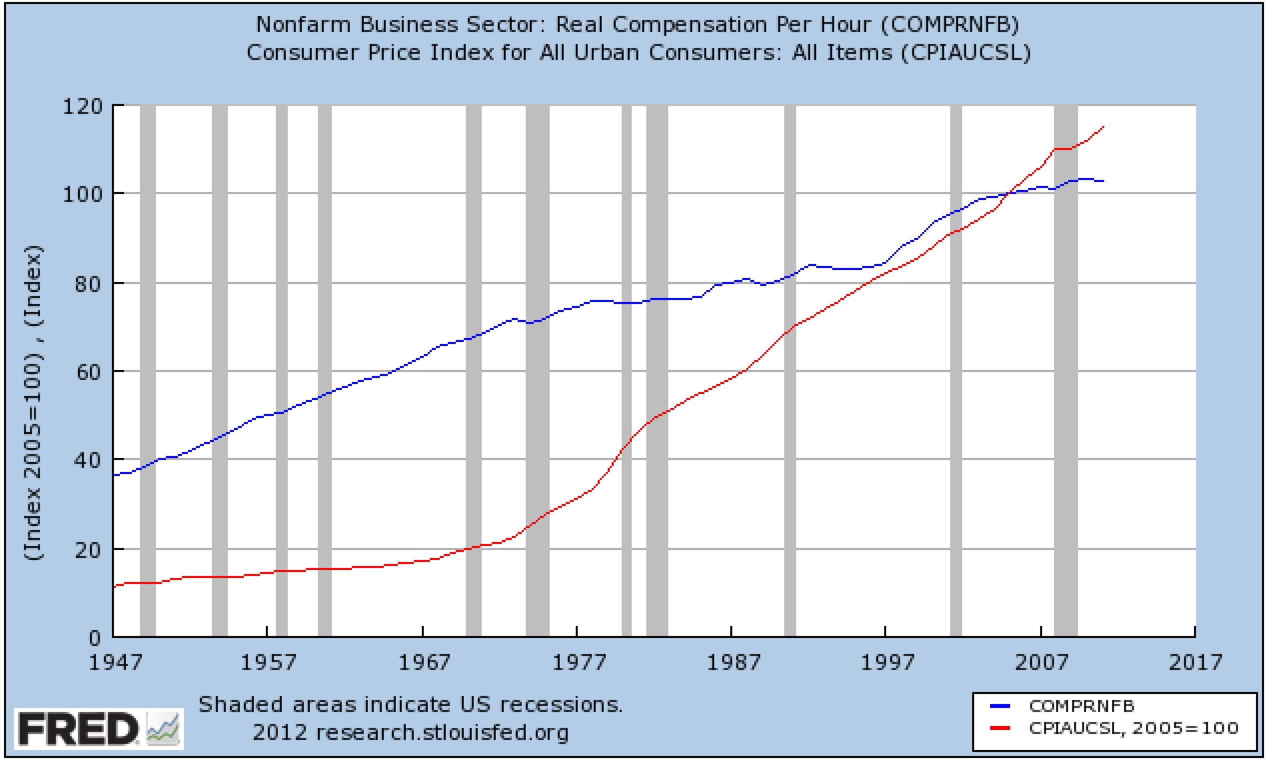
The inflation rate is expected to increase 0.19 basis points from 2014-2018 to 2.57%



Source: IHS Global

U.S. Economic Landscape

David McWilliams' Thesis: Blue = Wage Growth; Red = Inflation



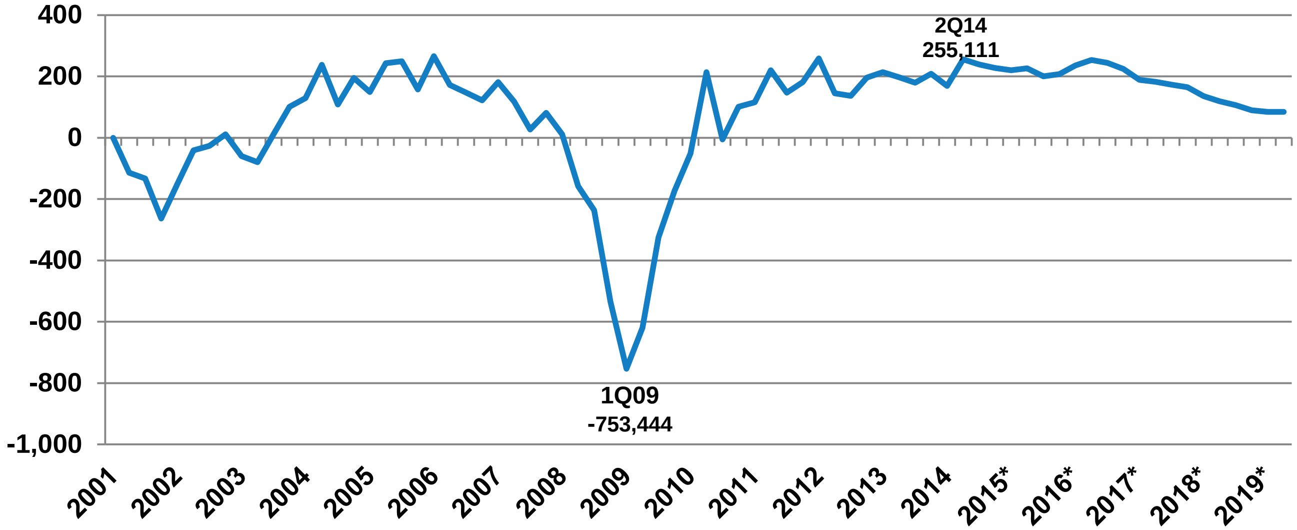
Source: Federal Reserve Bank St Louis

U.S. Economic Landscape

Job Growth

2.5 million jobs are projected to be added this year with an additional 2.7 million in 2015

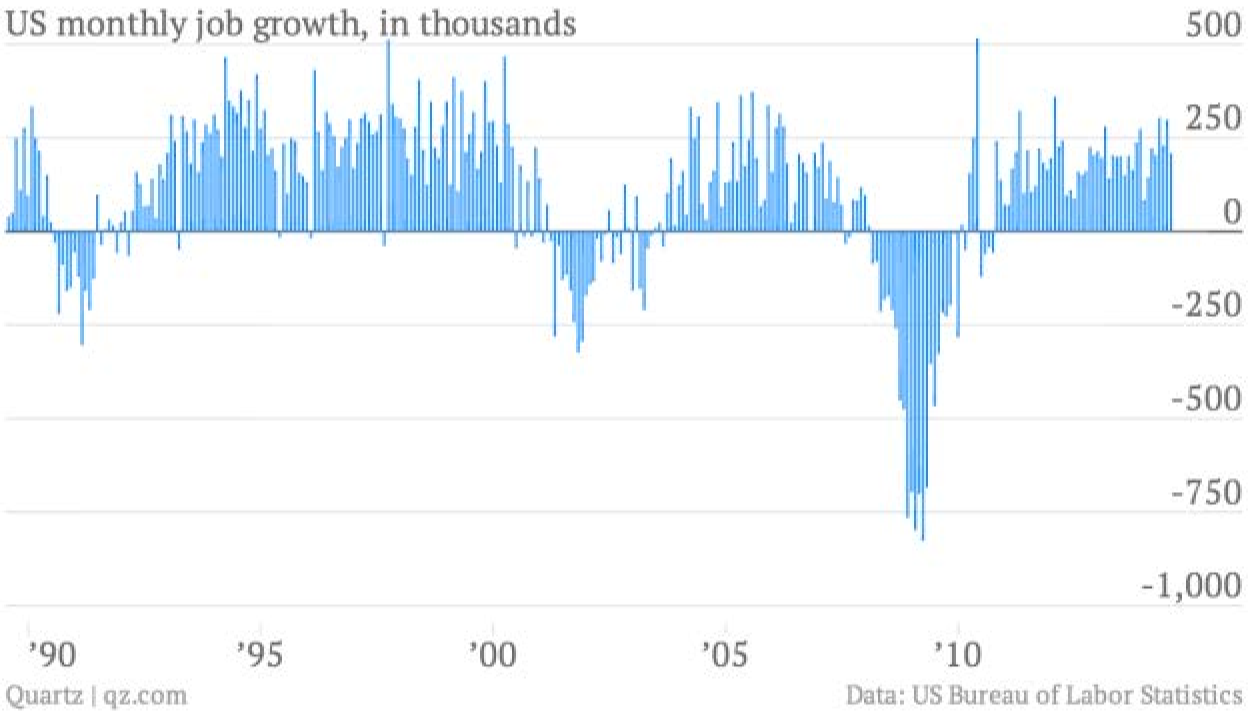
Average Change in Total Nonfarm Payrolls (Forecast)
(in thousands)



Source: IHS Global

U.S. Economic Landscape

Job Growth

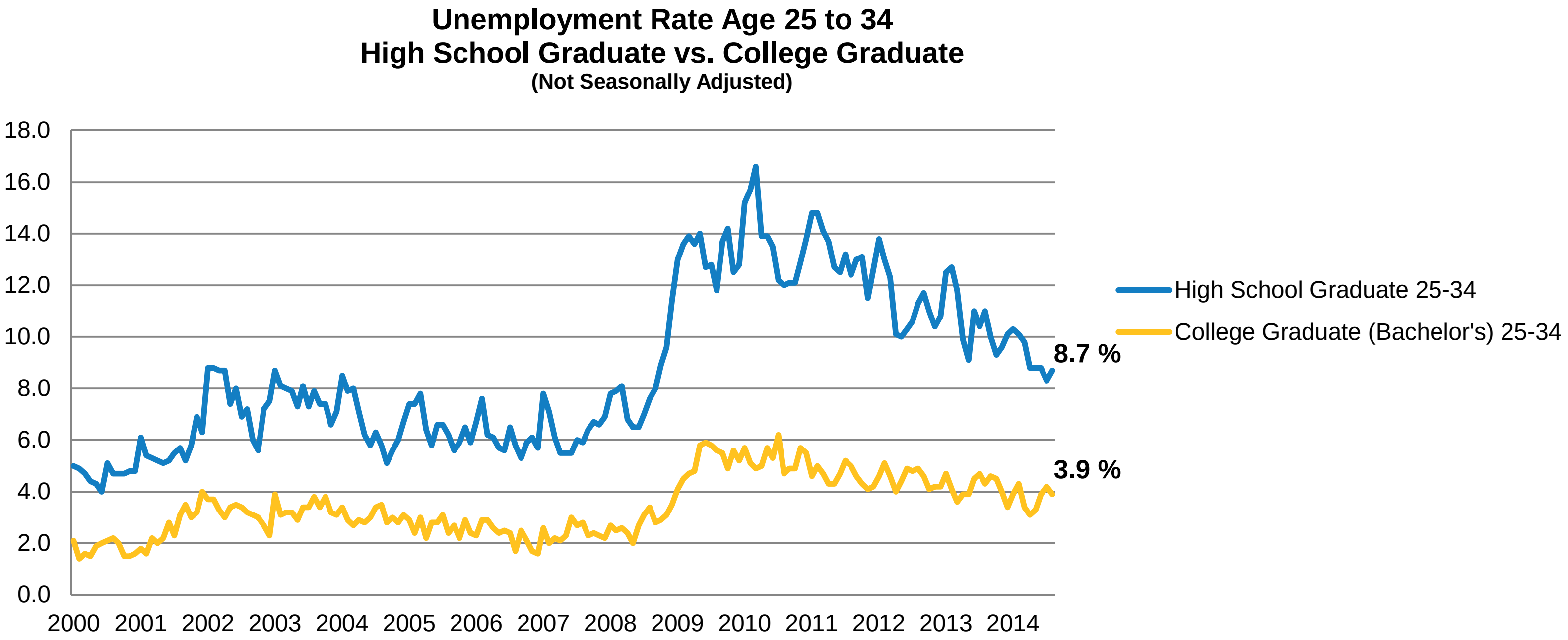


Source: US BLS

U.S. Economic Landscape

Unemployment Rate – Ages 25 to 34

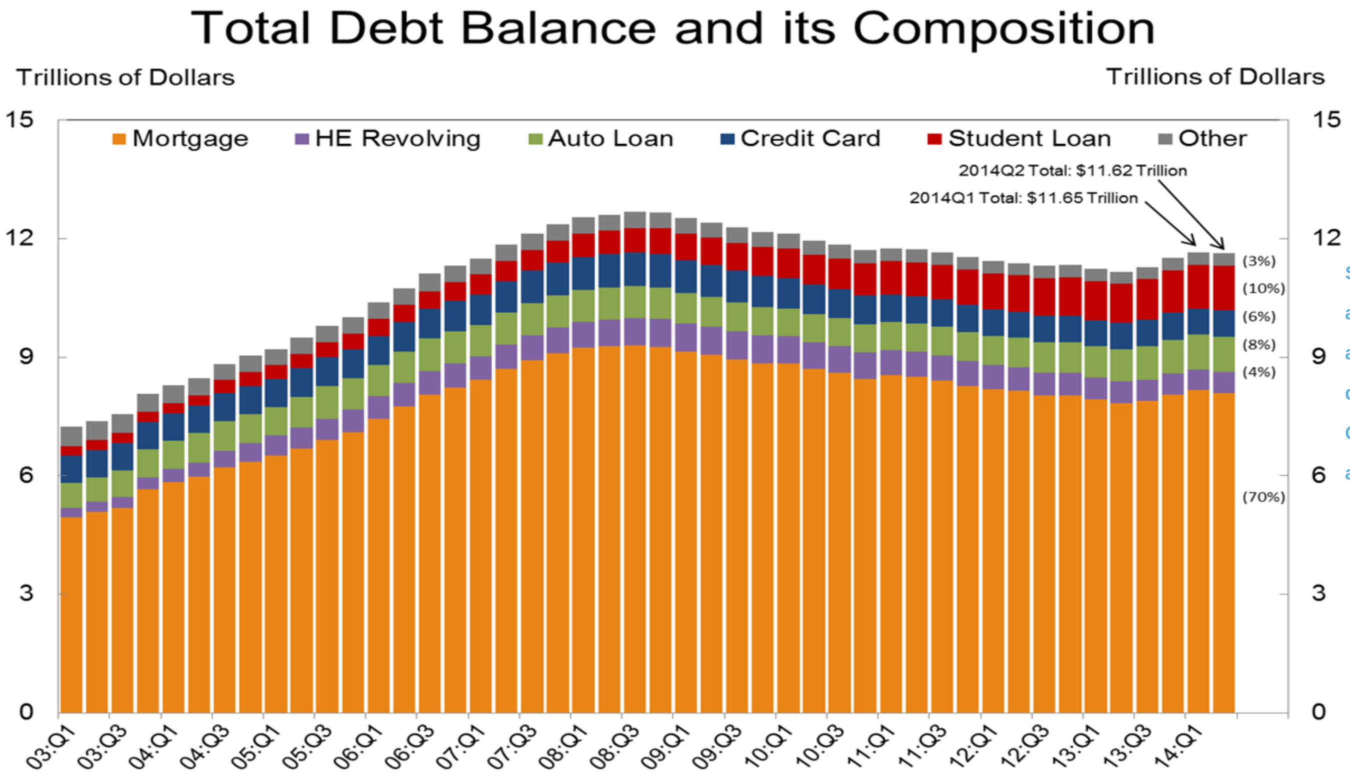
Unemployment for those ages 25 to 34 is 8.7% for High School Graduates compared to 3.9% for College Graduates



Source: Bureau of Labor Statistics

College Landscape

Student Loan vs. Consumer Debt

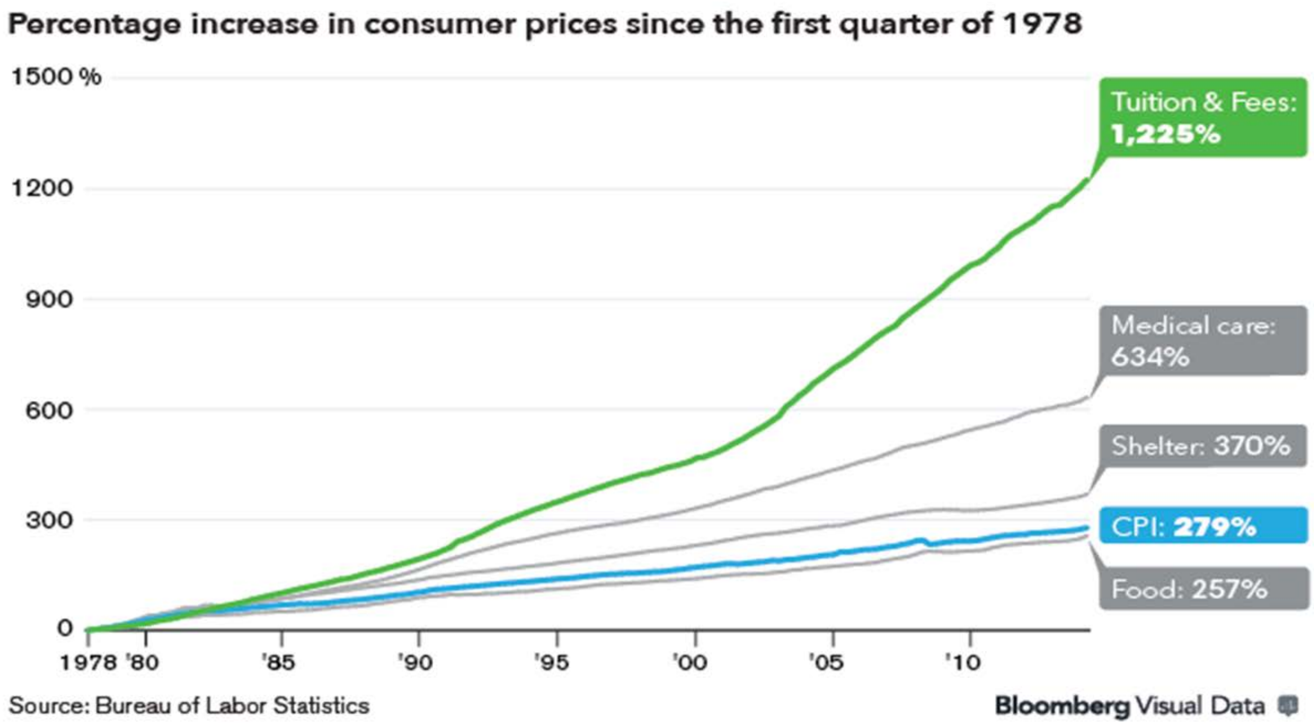


Source: FRBNY Consumer Credit Panel/Equifax

Student loan debt accounts for **10%** of all consumer debt and **10.9%** of aggregate student loan debt is 90+ days delinquent or in default. Compared to mortgage delinquency accounting for **3.4%** during 2Q14.

College Landscape

Affordability



College Landscape

Educational Attainment & Income Potential

In 2012, the median of earnings for young adults with a bachelor's degree was $46,900, while the median was $22,900 for those without a high school credential and $30,000 for those with a high school credential. In other words, young adults with a bachelor's degree earned more than twice as much as those without a high school credential (105 percent more) and 57 percent more than young adult high school completers. **National Center for Education Statistics*

Educational Attainment & Unemployment Rate

Those who earned a Bachelor’s degree have median weekly earnings of $1,108 and an unemployment rate of 4.0% compared to those that only attained a high school diploma who have a median weekly earnings of $651 and an unemployment rate of 7.5%

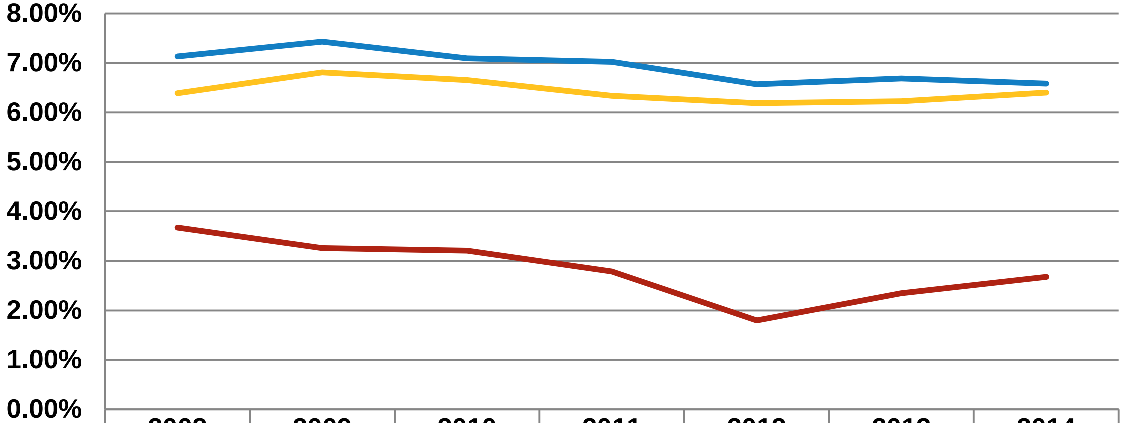
**Bureau of Labor Statistics*

Capital Markets

Student Housing Cap Rate Trends

Student housing has a cap rate long term average of 6.93% while the 10-Year Treasury long term average is 2.82%

Average Cap Rate vs. 10-Year Treasury



	2008	2009	2010	2011	2012	2013	2014
SH Cap Rates	7.13%	7.43%	7.09%	7.02%	6.57%	6.69%	6.58%
MH Cap Rates	6.39%	6.81%	6.66%	6.34%	6.19%	6.23%	6.40%
10-yr Treasury	3.67%	3.26%	3.21%	2.79%	1.80%	2.35%	2.68%

Source: Real Capital Analytics & IHS Global

Capital Markets

Multi Family Interest Rates vs. Student Housing Interest Rates

From Q2-13 to Q2-14 SH & MF interest rates have had a difference of ±15 bps

Source: Real Capital Analytics

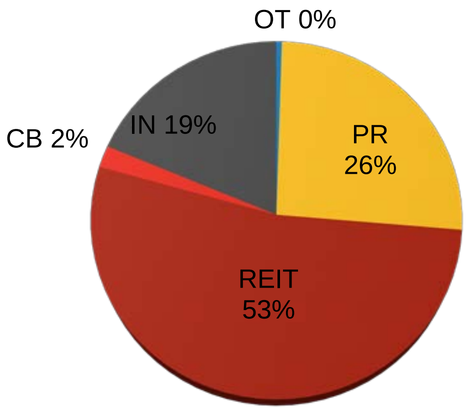
Student Housing – Buyer Profiles

Who is buying?

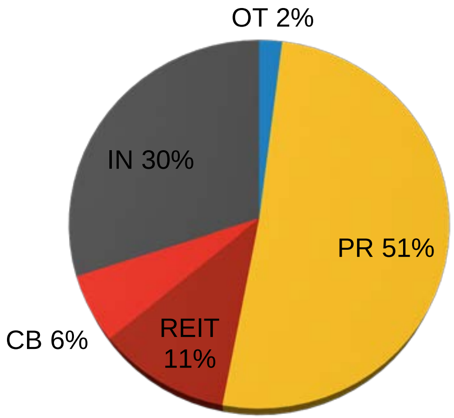
Private buyers represent 67% of 09/2014 YTD reported sales

Private (PR) | Cross-Border (CB) | Institutional (IN) | Public Listed/REIT (REIT) | Other (OT)

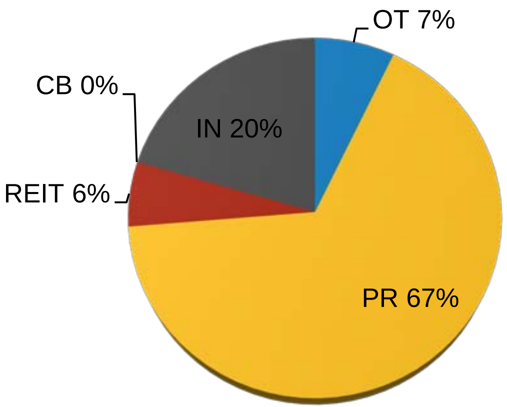
2012



2013



2014 (09/2014 YTD)

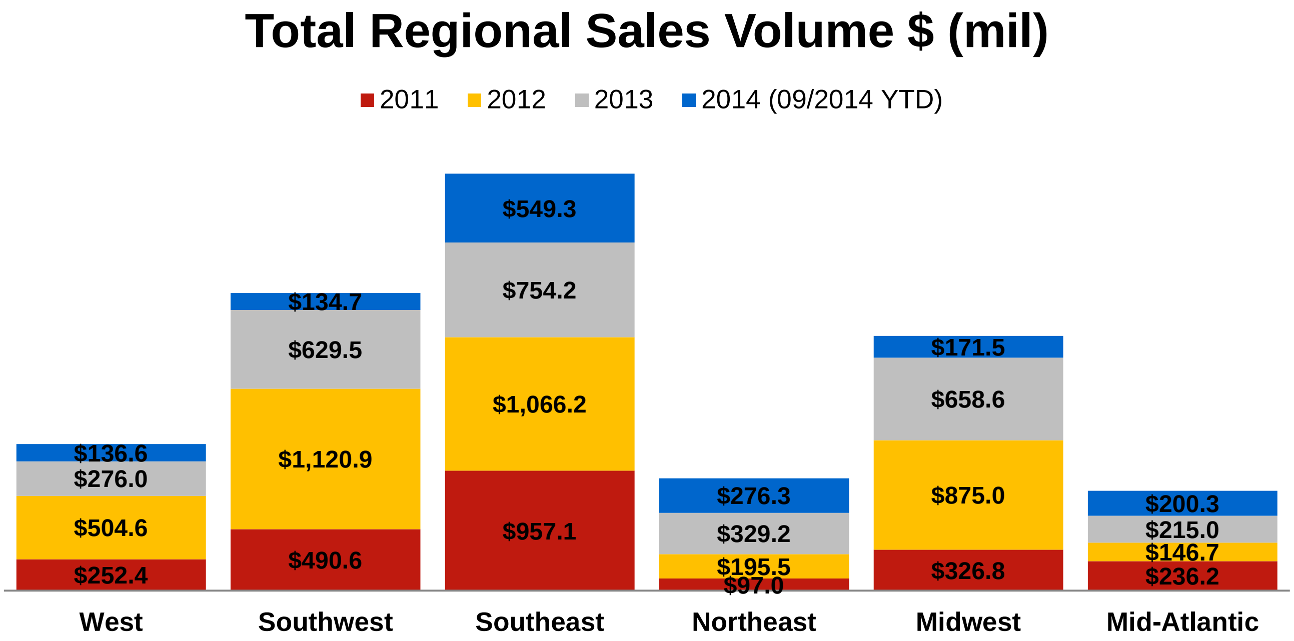


Source: Real Capital Analytics

Student Housing – Sales Profile

Where is the capital flowing?

YTD the Southeast Region has seen the greatest amount of reported sales volume at $549.3M



Source: Real Capital Analytics

Student Housing – Sales Analysis

YoY Transaction Comparison

2012-$3,908.9 B

Total Transactions	200
Total Beds	64,729
Total Units	27,774
Average $/Bed	$61,175
Average $/Unit	$145,429

2013-$2,862.6 B

Total Transactions	166
Total Beds	57,486
Total Units	24,183
Average $/Bed	$57,147
Average $/Unit	$151,178

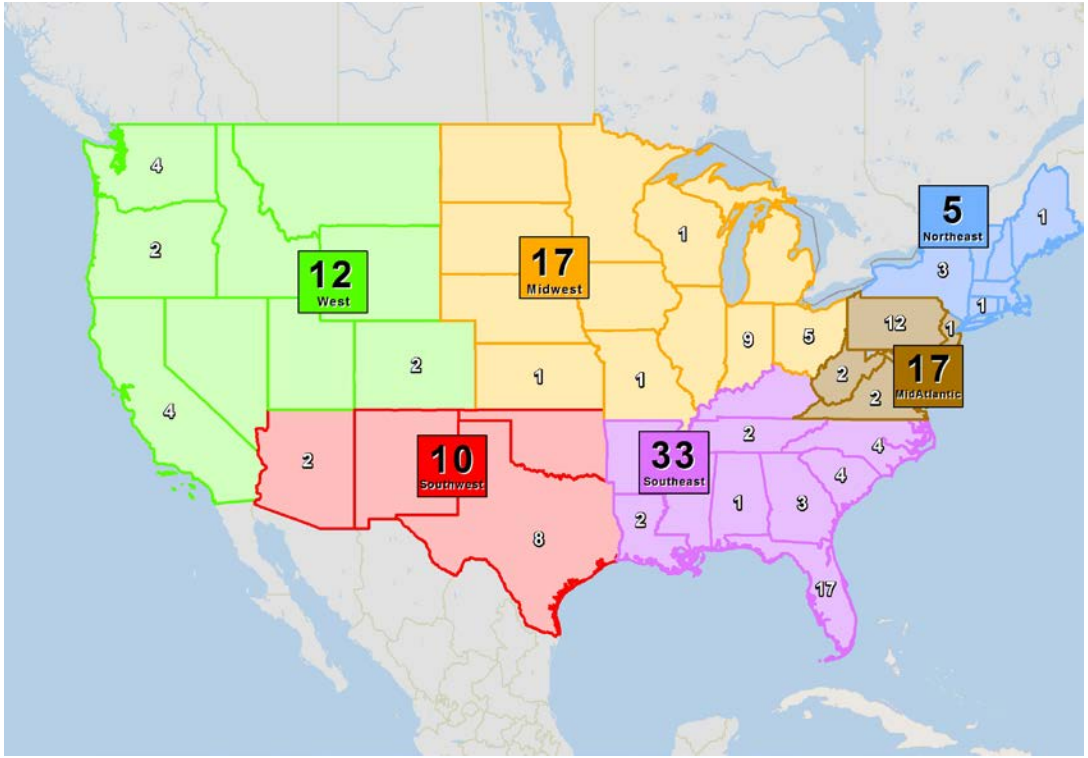
2014 YTD-$1,468.7B

Total Transactions	94
Total Beds	29,581
Total Units	12,413
Average $/Bed	$59,358
Average $/Unit	$163,434

Source: Real Capital Analytics

Student Housing – Regional Sales Analysis

2014 YTD Transactions



Regional Transaction Count

Regions

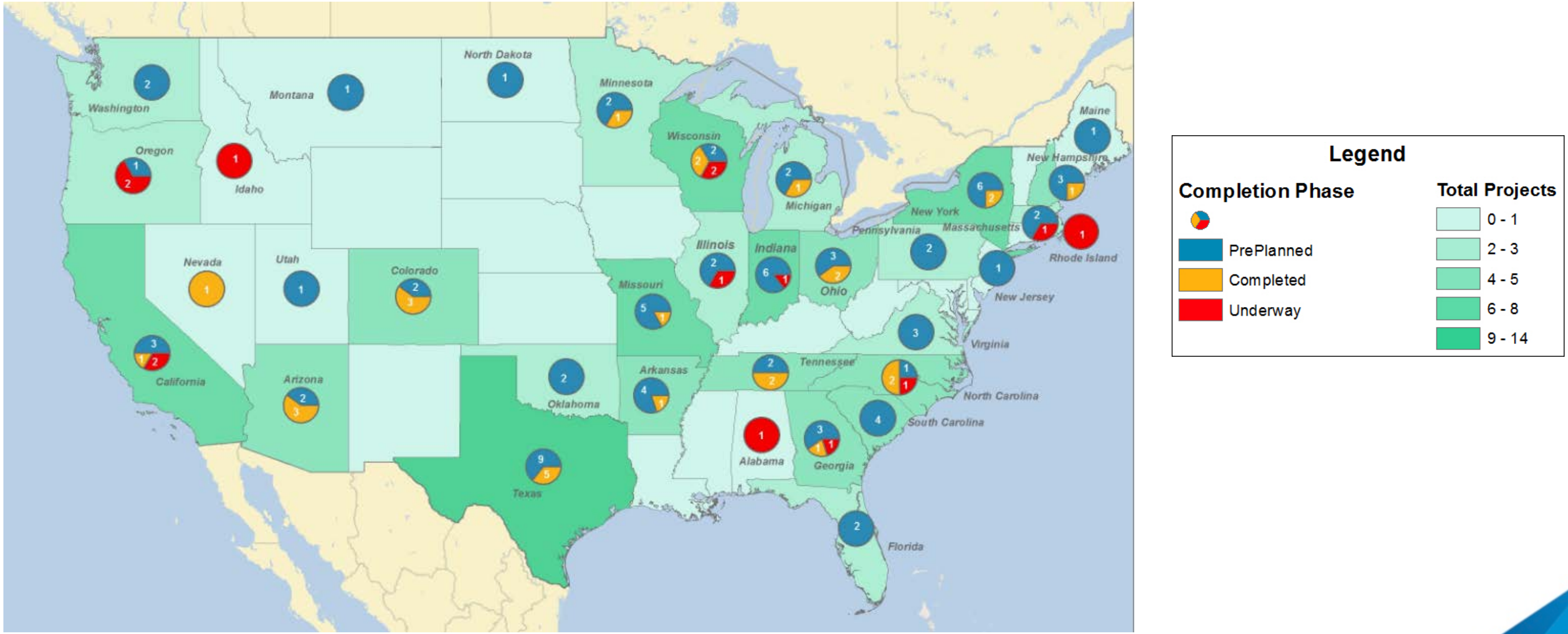
- Southeast - 33
- Midwest - 17
- MidAtlantic - 17
- West - 12
- Southwest - 10
- Northeast - 5

Total Transactions - 94

Source: Real Capital Analytics

Student Housing - Development Map

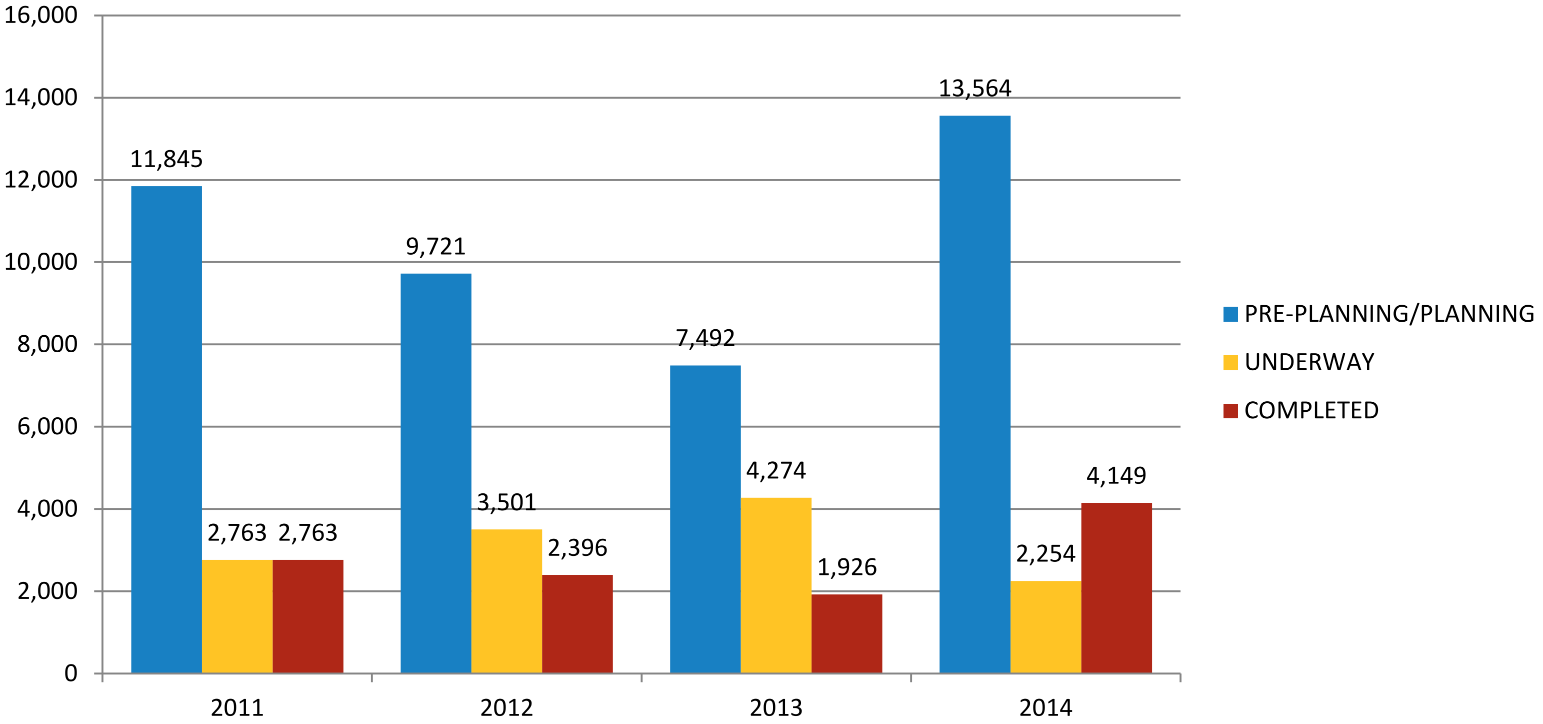
2014 YTD Developments



Source: Dodge Report

Student Housing – Development Analysis

YoY National Development

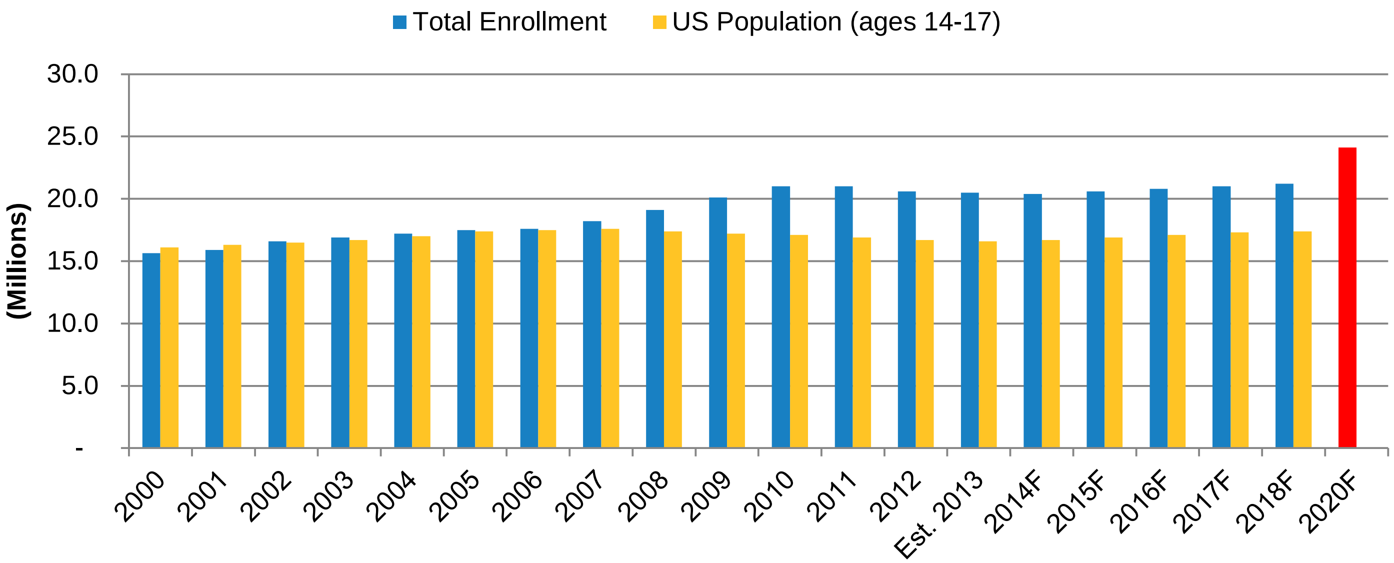


Source: Dodge Report

Student Housing – Population & Enrollment

Population & Enrollment Comparison

US Dept. of Education projects higher institution enrollment will increase to 24,075,000 by 2020.



Sources: Axiometrics Inc., Census, NCES

Student Housing – University Snapshot

Top 10 Fastest Growing Colleges

Public Doctoral Institutions

Rank	Institution	City, State	Enrollment Fall 2002	Enrollment Fall 2012	Increase
1.	City U. of NY Graduate Center	New York, NY	3,874	6,812	**75.8%**
2.	Texas Woman's U.	Houston, TX	8,694	15,168	**74.5%**
3.	Texas A&M U. at Kingsville	Kingsville, TX	6,556	11,350	**73.1%**
4.	U. Of Alabama	Tuscaloosa, AL	19,584	33,503	**71.1%**
5.	Arizona State U.	Tempe, AZ	47,359	73,378	**54.9%**
6.	U. of Central Florida	Orlando, FL	38,501	59,601	**54.8%**
7.	U. of Arkansas at Fayetteville	Fayetteville, AR	15,995	24,537	**53.4%**
8.	Colorado School of Mines	Golden, CO	3,787	5,721	**51.1%**
9.	U. of Texas at Dallas	Dallas, TX	13,229	19,727	**49.1%**
10.	Missouri U. of Science and Tech	Rolla, MO	5,240	7,645	**45.9%**

Public Masters Institutions

Rank	Institution	City, State	Enrollment Fall 2002	Enrollment Fall 2012	Increase
1.	California State U.	Long Beach, CA	630	4,920	**681.0%**
2.	Florida Gulf Coast U.	Fort Myers, FL	5,109	13,445	**163.2%**
3.	U. of Washington at Bothell	Bothell, WA	1,636	4,172	**155.0%**
4.	U. of West Alabama	Livingston, AL	2,002	4,943	**146.9%**
5.	Thomas Edison State College	Trenton, NJ	9,225	20,606	**123.4%**
6.	Fort Hays State U.	Hays, KS	6,392	13,310	**108.2%**
7.	U. of Houston - Victoria	Victoria, TX	2,183	4,335	**98.6%**
8.	Texas A&M International U.	Laredo, TX	3,723	7,213	**93.7%**
9.	Arkansas Tech U.	Russellville, AR	4,744	10950	**87.0%**
10.	U. of Washington at Tacoma	Tacoma, WA	2,111	3,919	**85.7%**

Source: Chronicles of Higher Education

Student Housing – University Snapshot

Top 10 Fastest Growing Colleges

Public 2-Year Institutions

Rank	Institution	City, State	Enrollment Fall 2002	Enrollment Fall 2012	Increase
1.	River Parishes Community College	Sorrento, LA	585	3566	**509.6%**
2.	Northwest Louisiana Tech. College	Shreveport, LA	593	2633	**344.0%**
3.	Bluegrass Community and Tech. College	Lexington, KY	3055	13218	**322.7%**
4.	Northshore Tech. College Sullivan Campus	Bogalusa, LA	766	3111	**306.1%**
5.	Minnesota State Community and Tech. College	Fergus Falls, MN	1739	6786	**290.2%**
6.	Treasure Valley Community College	Ontario, OR	701	2688	**283.5%**
7.	Acadiana Technical College	Lafayette, LA	928	3548	**282.3%**
8.	South Louisiana Community College	Lafayette, LA	1073	4015	**274.2%**
9.	Saint Louis Community College at Forest Park	St. Louis, MO	7610	26603	**249.6%**
10.	Metropolitan Community College	Omaha, NE	5802	20141	**247.1%**

Source: Chronicles of Higher Education

Student Housing – Key Markers

“Red Flag” Markers

- Loan defaults could accelerate
- Increase in tuition and fees
- Potentially rapidly rising interest rates
- Significant development pipeline yet to be delivered

Positive Markers

- Increase in GDP
- Increase in job growth
- Percentage of college grads lower unemployment rate
- College grads demonstrate higher earning power/motivation
- SH & MF cap rate spread narrowing
- SH & MF interest rates nearing parity
- Population growth ages 14-24
- More HS grads electing to pursue degrees

485 offices in
63 countries
on
6 continents

United States: **146**
Canada: **44**
Latin America: **25**
Asia Pacific: **186**
EMEA: **84**

$2.1
billion in
annual revenue

1.46
billion square feet
under management

15,800
professionals
and staff