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

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%

Core Consumer Price Index (Excludes Food & Energy) vs. Employment Cost Index

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.

Unemployment Rate Age 25 to 34
High School Graduate vs. College Graduate
(Not Seasonally Adjusted)

Source: Bureau of Labor Statistics
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

Percentage increase in consumer prices since the first quarter of 1978

- Tuition & Fees: 1,225%
- Medical Care: 634%
- Shelter: 370%
- CPI: 279%
- Food: 257%

Source: Bureau of Labor Statistics

Bloomberg Visual Data
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

<table>
<thead>
<tr>
<th>Year</th>
<th>SH Cap Rates</th>
<th>MH Cap Rates</th>
<th>10-yr Treasury</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>7.13%</td>
<td>6.39%</td>
<td>3.67%</td>
</tr>
<tr>
<td>2009</td>
<td>7.43%</td>
<td>6.81%</td>
<td>3.26%</td>
</tr>
<tr>
<td>2010</td>
<td>7.09%</td>
<td>6.66%</td>
<td>3.21%</td>
</tr>
<tr>
<td>2011</td>
<td>7.02%</td>
<td>6.34%</td>
<td>2.79%</td>
</tr>
<tr>
<td>2012</td>
<td>6.57%</td>
<td>6.19%</td>
<td>1.80%</td>
</tr>
<tr>
<td>2013</td>
<td>6.69%</td>
<td>6.23%</td>
<td>2.35%</td>
</tr>
<tr>
<td>2014</td>
<td>6.58%</td>
<td>6.40%</td>
<td>2.68%</td>
</tr>
</tbody>
</table>

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
- PR 26%
- IN 19%
- CB 2%
- REIT 53%
- OT 0%

2013
- PR 51%
- IN 30%
- CB 6%
- REIT 6%
- OT 2%

2014 (09/2014 YTD)
- PR 67%
- IN 20%
- CB 0%
- REIT 6%
- OT 7%

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

Total Regional Sales Volume $ (mil)

<table>
<thead>
<tr>
<th>Region</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014 (09/2014 YTD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>West</td>
<td>$136.6</td>
<td>$276.0</td>
<td>$504.6</td>
<td>$252.4</td>
</tr>
<tr>
<td>Southwest</td>
<td>$134.7</td>
<td>$629.5</td>
<td>$957.1</td>
<td>$490.6</td>
</tr>
<tr>
<td>Southeast</td>
<td>$549.3</td>
<td>$754.2</td>
<td>$1,066.2</td>
<td>$97.0</td>
</tr>
<tr>
<td>Northeast</td>
<td>$276.3</td>
<td>$329.2</td>
<td>$195.5</td>
<td>$1,120.9</td>
</tr>
<tr>
<td>Midwest</td>
<td>$171.5</td>
<td>$658.6</td>
<td>$875.0</td>
<td>$1,066.2</td>
</tr>
<tr>
<td>Mid-Atlantic</td>
<td>$200.3</td>
<td>$215.0</td>
<td>$146.7</td>
<td>$236.2</td>
</tr>
</tbody>
</table>

Source: Real Capital Analytics
### Student Housing – Sales Analysis
#### YoY Transaction Comparison

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Transactions</th>
<th>Total Beds</th>
<th>Total Units</th>
<th>Average $/Bed</th>
<th>Average $/Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>200</td>
<td>64,729</td>
<td>27,774</td>
<td>$61,175</td>
<td>$145,429</td>
</tr>
<tr>
<td>2013</td>
<td>166</td>
<td>57,486</td>
<td>24,183</td>
<td>$57,147</td>
<td>$151,178</td>
</tr>
<tr>
<td>2014 YTD</td>
<td>94</td>
<td>29,581</td>
<td>12,413</td>
<td>$59,358</td>
<td>$163,434</td>
</tr>
</tbody>
</table>

Source: Real Capital Analytics
Student Housing – Regional Sales Analysis
2014 YTD Transactions

Total Transactions - 94

Source: Real Capital Analytics
Student Housing - Development Map
2014 YTD Developments

Legend
Completion Phase
- PrePlanned
- Completed
- Underway

Total Projects
- 0 - 1
- 2 - 3
- 4 - 5
- 6 - 8
- 9 - 14

Source: Dodge Report
Student Housing – Development Analysis

YoY National Development

![Graph showing YoY National Development from 2011 to 2014 with data for Pre-Planning/Planning, Underway, and Completed stages.

Source: Dodge Report](image-url)
US Dept. of Education projects higher institution enrollment will increase to 24,075,000 by 2020.
# Student Housing – University Snapshot
## Top 10 Fastest Growing Colleges

### Public Doctoral Institutions

<table>
<thead>
<tr>
<th>Rank</th>
<th>Institution</th>
<th>City, State</th>
<th>Enrollment Fall 2002</th>
<th>Enrollment Fall 2012</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>City U. of NY Graduate Center</td>
<td>New York, NY</td>
<td>3,874</td>
<td>6,812</td>
<td>75.8%</td>
</tr>
<tr>
<td>2.</td>
<td>Texas Woman’s U.</td>
<td>Houston, TX</td>
<td>8,694</td>
<td>15,168</td>
<td>74.5%</td>
</tr>
<tr>
<td>3.</td>
<td>Texas A&amp;M U. at Kingsville</td>
<td>Kingsville, TX</td>
<td>6,556</td>
<td>11,350</td>
<td>73.1%</td>
</tr>
<tr>
<td>4.</td>
<td>U. Of Alabama</td>
<td>Tuscaloosa, AL</td>
<td>19,584</td>
<td>33,503</td>
<td>71.1%</td>
</tr>
<tr>
<td>5.</td>
<td>Arizona State U.</td>
<td>Tempe, AZ</td>
<td>47,359</td>
<td>73,378</td>
<td>54.9%</td>
</tr>
<tr>
<td>6.</td>
<td>U. of Central Florida</td>
<td>Orlando, FL</td>
<td>38,501</td>
<td>59,601</td>
<td>54.8%</td>
</tr>
<tr>
<td>7.</td>
<td>U. of Arkansas at Fayetteville</td>
<td>Fayetteville, AR</td>
<td>15,995</td>
<td>24,537</td>
<td>53.4%</td>
</tr>
<tr>
<td>8.</td>
<td>Colorado School of Mines</td>
<td>Golden, CO</td>
<td>3,787</td>
<td>5,721</td>
<td>51.1%</td>
</tr>
<tr>
<td>9.</td>
<td>U. of Texas at Dallas</td>
<td>Dallas, TX</td>
<td>13,329</td>
<td>19,727</td>
<td>49.1%</td>
</tr>
<tr>
<td>10.</td>
<td>Missouri U. of Science and Tech</td>
<td>Rolla, MO</td>
<td>5,240</td>
<td>7,645</td>
<td>45.9%</td>
</tr>
</tbody>
</table>

### Public Masters Institutions

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

Source: Chronicles of Higher Education
## Student Housing – University Snapshot
### Top 10 Fastest Growing Colleges

#### Public 2-Year Institutions

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

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