

25 YEARS

COMMERCIAL INVESTMENT Real Estate

The Magazine of the CCIM Institute

JUL.AUG.07

Cashing in On Campus

**Midyear Forecast:
How Will Markets
Perform?**

**CCIM Stars Reach
New Heights**

CCIM

www.ciremagazine.com

Degrees of Success

Church Street Plaza, a mixed-use development near Northwestern University in Evanston, Ill., includes a Wolfgang Puck restaurant, which caters to students' increasingly expensive tastes.



Campus-related projects earn high marks from commercial real estate developers.



by Matt Hudgins

In the past decade, commercial real estate activity in U.S. college and university towns has matured from the old standbys of pizza joints and T-shirt shops to include coffee bars, upscale restaurants, and stores that sell everything from cell phones to shag rugs.

Today's students wield more disposable income than previous generations, and they demand the living, eating, and shopping options they've grown accustomed to at home. For developers and investors, access to thousands of consumers within a university's small geographic area spells steady business and high rental income.

"A university generates traffic like a big retail anchor," says Anthony A. Strauss, CCIM, senior retail associate with NAI Welsh in Minneapolis. Strauss is wrapping up a \$1 million renovation to a century-old four-building complex near the University of Minnesota's planned 50,000-seat stadium. Now leased to several restaurants, the space commands nearly double the rent charged before renovation.

The nearby university of 53,000 students and 16,000 employees drives most of the traffic to Strauss' property. He expects his tenants to receive even more visitors when the adjacent stadium is finished in 2009.

Campus towns surrounding universities and colleges provide interesting niche markets for commercial real estate professionals looking to diversify their portfolios or embark on new business ventures. While the majority of projects involve multifamily and retail development, savvy professionals who understand the changes in demand may find other opportunities that benefit from the old college try.

New Classes of Development

Students' increasing disposable incomes and spending habits are fueling a transition to higher-end restaurants and retail, experts say.

Witness the Wolfgang Puck Grand Café near Northwestern University in Evanston, Ill. The upscale trend is why Chicago-based Tartan Realty Group currently is converting a former McDonald's into a Chipotle Mexican Grill at Indiana University in Bloomington, Ind.

This transition also is altering the look of college towns. Today, coffee shops, bookstores, and restaurants across from campuses feature extensive landscaping, comfortable seating, and wireless Internet hot spots where patrons can socialize and study. In essence, campus-area developers are adapting large-scale retail techniques to encourage extended visits and increased spending.

"A lot of them have outdoor seating, and people gravitate to that," says Wilhelm O. Kreuzer, CCIM, a Tartan Realty principal. "Those streets are almost like a lifestyle center."

Tartan Realty has developed retail and mixed-use projects near the University of Illinois at Urbana-Champaign campus, Illinois State University in Normal, Ill., and North Carolina State University in Raleigh, N.C. "It's a pedestrian business, and the tenants do very well," Kreuzer says. "There's just a demand when you get density like that [from a college campus] and that brings good sales."

Multifamily is another area of opportunity. Biola University, a private school of about 5,000 students in La Mirada, Calif., in Los Angeles County, is keenly interested in providing student housing and has purchased seven nearby apartment complexes for conversion to residence halls in recent years, according to Mike Crosby, CCIM, the university's real estate investment manager. While Biola has its own dormitories, Crosby likes the flexibility of off-campus properties, which can be leased to market renters when students don't take all the units.

But promising property types for investment near colleges and universities aren't limited to retail and multifamily. "One of my highest priorities right now is looking for office space," Crosby says. Without room to grow, Biola is moving administrative units to leased offices to free up on-campus space for operations that require direct contact with students.

Biola's dilemma is common on constricted campuses such as Indiana University's. After Tartan Realty added two floors to the former Von Lee Theatre, which expanded the space from 6,700 square feet to 21,000 sf of retail and office, the company leased the entire office portion to the university's administrative department.

On-Campus Projects

Institutions of higher learning generally develop and own the buildings on their campuses, but niche opportunities exist for private developers, particularly for student housing. Around the country outdated dormitories with bunk beds and communal restrooms and showers are being replaced by high-end units that feature kitchens, private bathrooms, and wiring for cable TV and Internet.

Matt Hudgins is a freelance writer based in Austin, Texas.

Valdosta, Ga.-based Ambling University Development Group is a fee developer that builds new student housing for schools across the nation. Construction costs vary by market but average a little more than \$100 per square foot, according to Charles Perry, AUDG's president.

"Today's students and their parents are much more demanding — they are just not going to stay in the old dorms," Perry says. "The majority of these students are looking for a single-occupant bedroom and a bath they share with no more than one other student. These are class A or higher apartments, but the skins on them look like traditional dorms."

Large on-campus housing projects often include a mixed-use component, usually restaurants or retail but occasionally administrative offices such as police substations, Perry says. AUDG developed a 10-building housing project for Old Dominion University in Norfolk, Va., that included 50,000 sf of retail, including a fitness center. "The different mix of uses can be all over the board," he says. "In the last

three years, mixed-use has been blending into these projects, and that's going to be the norm going forward."

In an unusual on-campus project, Guy Trusty, CCIM, president of Lodging & Hospitality Realty in Coral Gables, Fla., is working with Florida International University to establish a hotel on its North Miami campus that would double as a hands-on teaching facility for its hospitality school. His greatest challenge in three years of on-and-off talks with the university has been getting the developer, school administrators, and faculty to agree on an appropriate size for the hotel, Trusty says.

"The school had the Taj Mahal Hilton in mind while the developer had a Marriott Courtyard in mind," he says. Slated to serve one of two main campuses for the 38,000-student university, the hotel could achieve a 40 percent base occupancy level with 125 rooms, Trusty believes.

"It's a slam-dunk idea. If everything were just business, there would be a hotel there already," Trusty says. "You need to recognize upfront that you're dealing



Chicago-based Tartan Realty Group redeveloped the historic Von Lee Theater near Indiana University in Bloomington, Ind., into retail and office space.

with non-business people, and you have to understand their perspective. You have to be very patient."

Barriers and Benefits

Acquiring desirable sites within walking distance of school campuses is a difficult, expensive proposition. The best spots are near businesses that already draw a steady flow of students and visitors to the university, putting sellers in a position to demand high prices.

"Students and visitors want the convenience of walking a block or two blocks, or you don't command the same attraction," says Mark L. Levine, CCIM, director and professor at the University of Denver's School of Real Estate and Construction Management.

Unless the campus is new, most projects involve urban infill, replacing or rehabilitating structures surrounded by existing businesses, which adds layers of complexity and cost. Zoning and building approvals may require negotiations with the college, neighbors, and even historical preservation groups, particularly when developers seek to add density through heights that are uncommon in the community. By the same token, limited availability and a laborious permitting process serve as barriers to entry for competitors.

Parking is often a developer's greatest challenge near a college or university, Levine says. Developers may be loathe to sacrifice precious land for vehicle spaces, but most retail tenants — and nearby neighborhood associations — will insist on at least a few spaces.

"Nobody wants to spend on a parking

Higher Education, Higher Expectations

Growth in the college-age population and changing spending habits on the part of higher education students are two chief reasons commercial real estate is booming in college towns.

More than 17.4 million students moved onto college campuses last September, the largest class in history, up 6 percent from the previous year, according to an Alloy Media and Marketing survey. College students brought \$182 billion in total spending power with them to college towns, including \$46 billion for discretionary spending.

Along with freer spending habits, today's students dine out more often than their predecessors and seek upscale restaurants in addition to the traditional college fare of pizza and beer. Many restaurants increase their student patronage by joining campus-based meal plans, which allow meals to be charged to a prepaid account.

"This is a generation that grew up with a Starbucks in their hand and had their own bedroom," says Scott S. Selig, CCIM, associate vice president of capital assets at Duke University in Charlotte, N.C. Students' expectations are higher both for retail and residential, and they expect to have multiple, interesting eating venues. There's still the macaroni-and-cheese set, and the grab-and-go business is still a growth area, but that's more noodle bars now than it is pizza joints."

National retailers have caught on too. College-oriented retail lineups include large bookstores, boutique apparel stores, and video and computer game vendors, as well as computer and cellular telephone stores.

Mixed-use developer Tartan Realty Group based in Chicago has found strong demand for residential condominiums near colleges and universities and now is adding residential units into the upper floors of its mixed-use projects, according to Wilhelm O. Kreuzer, CCIM, a principal at Tartan Realty.

Students — or their parents — will pay top dollar for condominiums near campus. "If you talk to students, the extra cost isn't really an issue," he says. "For an extra \$200 a month, you can stay in a quality property across from campus."

space. It's not unusual to see \$30,000 per space near a lot of campuses and it doesn't produce revenue," Levine says. "Every time somebody says 'I want 10 more spaces,' they've just added \$200,000 to \$400,000 to a project's cost."

The right location is essential to enjoy the constant flow of pedestrian traffic colleges generate. Depending on a market's size, the number of good sites may be limited to a handful, with few or none available for acquisition. It's tempting to look for properties off the main drag, but experienced developers warn against locating a project outside of students' habitual stomping grounds.

"If a campus town is two blocks long, the national retailers don't want to be on the third block," Kreuzer says. "It's dramatic how the sales will drop off."

Destination Retail

Even so, some entrepreneurs have ventured outside existing college thoroughfares with great success by providing the right mix of uses to draw customers to their tenants. A good example is Church Street Plaza, a 7-acre redevelopment project near Northwestern University in the Chicago suburb of Evanston, Ill. Locally based Arthur Hill & Co. is the master developer for the project, which is on land previously owned by Northwestern University and by the city of Evanston, about four blocks from the main campus and a mile from Evanston Hospital.

Church Street Plaza offers an 18-screen movie theater, a 187-room Hilton Garden Inn hotel, 205 residential condominiums, a 170,000-square-foot office building, an art gallery, and several restaurants. Retailers range from Cost Plus World Market and Borders to Urban Outfitters and Blick Art Materials. Rather than rely on foot traffic, the project offers 1,400 free garage parking spaces, financed through a municipal bond issue, and draws customers from the university, hospital, and surrounding trade area.

"University campuses tend to be strong economic engines even when the rest of the economy is slowing down, and hospitals have that characteristic as well," says Bruce Reid, CCIM, a principal at Arthur Hill & Co. Realty Services in Evanston. The combination seems to work well for Church Street Plaza, which has a retail occupancy rate near 100 percent.

Where do you find the numbers?

BOMA's *EER* of course!



Rely on BOMA's *Experience Exchange Report* for the most accurate and reliable commercial real estate income and expense data.

Available at www.boma.org

COMMERCIAL PROPERTY OPPORTUNITY ISLAND OF KAUAI

18,583 sf of Land
5,797 sf structure with offices

Currently operating a successful restaurant business (to be sold separately)
Premier south shore location with Highway frontage and ample parking.

For additional information or inquires:
Call 808-652-3752
lid@hawaiiantel.net

Tradewinds Realty, LLC - 4277 Papalina Road - Kalaheo, HI 96741

Senior Moments

Full-time students aren't the only demographic force behind development on the campus fringe. Many baby boomers and empty nesters are renting apartments or buying residential condominiums where they can soak up the vibrancy of college communities, enjoy plays or lectures, and continue their education. "Retirees are moving to these college towns because there's so much culture and there's always something going on," says Wilhelm O. Kreuzer, CCIM, a principal with Tartan Realty Group in Chicago.

With so many retirees seeking the benefits of a college-oriented environment, some developers see university campuses as ideal locations to tap the rapidly expanding seniors-housing market. "A lot of the alumni are interested in living close to the campus and taking advantage of what it has to offer," says Susan H. Lawrence, CCIM, vice president of Orlando, Fla.-based Real Estate Strategies.

Lawrence serves on the University of Central Florida's real estate advisory committee as well as on the board of directors of a company set up to develop a continuing-care retirement community in conjunction with the university. Colleges are not in the development business and like working with experienced providers to tackle projects, she says.

Seniors housing provides an excellent means for schools to serve three key constituencies, says Frank Rees, president of Dallas-based architecture firm Rees Associates. Those groups are retired faculty, retired alumni, and retired friends or financial donors.

"These three groups are at a time in their lives when they are trying to decide what to do with their surplus assets, so planned giving is a major benefit to the university," says Rees, whose company has designed 18 CCRCs in the past two decades. "Universities also create these things because it provides a flow of cash to the university as well as providing a valuable asset."

School involvement in seniors housing varies by project. University Place, a 183-unit independent-living retirement community with an attached 60-bed nursing center, is on land leased from Houston Baptist University. Rees designed the project 20 years ago and says HBU didn't invest any money in the development. In Austin, Texas, Rees designed Longhorn Village, a retirement community developed with the Ex-Students' Association of the University of Texas, adjacent to the UT Golf Club.

All high-quality retirement communities provide opportunities for an active lifestyle, but those linked to higher education give residents access to the school's performing arts, continuing educa-



Penn State University is one of several institutions that have partnered with developers to provide campus-affiliated seniors housing.

tion, and social activities as well. Colleges or universities can draw on the proximity of seniors to fuel their programs in gerontology, nursing, hospitality, and other disciplines.

"A multigenerational interaction between seniors and college students is very beneficial to both groups," Rees says. "A lot of college students today have never known a grandparent, and for a whole lot of these residents, their grandchildren may be thousands of miles away."

The trend of colleges and universities linking with CCRCs began at least 10 years ago, says Bob Kramer, president of the National Investment Center for the Senior Housing & Care Industries, which tracks seniors housing. In the past two years, however, schools have linked with more active communities for retirees ages 55 to 75, he says.

"These are more leisure retirement communities aimed at a younger age range," Kramer says. "They focus more on golf and tennis as well as full access to the academic environment."

For developers, active retirement communities are easier to finance and develop because the projects don't entail a healthcare component. Generally, land is set aside for healthcare, but the property can begin generating revenue from active-living units during the more lengthy permitting process required to develop nursing space.

Kramer believes these projects are successful because they meet a university's goal of keeping retired alumni involved in the school's activities and, potentially, funding. "For any college development officer, this is a dream come true."

Projects such as Church Street Plaza are destinations in their own right. With sufficient parking, mixed-use projects that capture the excitement of university life can attract a larger customer base, according to John K. McIlwain, senior resident fellow at the Urban Land Institute in Washington, D.C.

"A mix of stores that is attractive to the university population, if it's done well, will create a sense of place and vitality that attracts people from outside the university," McIlwain says. "It's fun: You've

got interesting movies being shown, some different ethnic restaurants, and stores you wouldn't ordinarily find, so you can create a sense of place supported by the university that also attracts outside people."

Gaining Admission

Still, projects that fit with the long-term land-use goals of adjoining colleges or universities stand a far better chance of obtaining local development approvals, so it's a good idea to compare notes with school planners early in the process. More

than a gesture, this investigation may reveal opportunities to collaborate on a superior project.

Asking is perhaps the best way to identify a school's space needs and the land uses it envisions next to campus. Just make sure to ask the right person, Crosby says. "There is somebody who is thinking about the real estate needs of the university," he says. "The developer needs to find that person and establish a relationship."

Scott S. Selig, CCIM, associate vice president for capital assets at Duke University

in Charlotte, N.C., recommends getting to know decision makers on the faculty and the university foundation as well as administrators. "Private universities are usually silos of power and not pyramids of power," he says. "The administration may hold the funds, but it may not be able to allocate those funds without faculty and board approval."

Developers also should familiarize themselves with the funding options available to the school, says Susan H. Lawrence, CCIM, vice president of Real Estate Strategies in Orlando, Fla., and real estate adviser to the University of Central Florida. If a college is interested in seeing the project carried out as a benefit to its students or faculty, it may agree to finance the undertaking, usually at a lower cost of capital than most developers can access, she says.

It may take years to navigate the arduous infill development process from concept through permitting and construction, but those high barriers to entry empower landlords near a bustling campus to maintain high occupancy rates and charge top-of-market rents.

"Once you're in there, you're in there," Kreuzer says. "That's why we don't sell our properties."

For multifamily developers, many student tenants are willing to pay a premium to be close to campus. There also is the added benefit of multiple leases per unit: Most students' leases are per bed, and the sum of multiple rents in a single unit generally exceeds the average rent for apartments in the same market.

Looked at purely in business terms, development probably is easier away from the campus edge, without the headaches that come from dealing with large institutional bureaucracies, neighborhood groups, and municipal leaders. However, for those that stick it out to completion, projects serving a university community usually generate above-average cash flow, along with the non-monetary payoff of contributing to many students' college experiences.

"It is rewarding work," says Perry, who likes to visit his properties when freshmen are just moving in. "You see in the expressions on the kids' faces and on their parents' faces that they didn't have expectations anywhere near what they see." ■

TAKE THE WAL-MART REALTY QUIZ

WHAT CAN A FORMER WAL-MART BUILDING BECOME?

- A) A Retail Development
- B) A Business Complex
- C) A Medical Center
- D) A Youth Activity Center
- E) All of the Above

To learn more, call 479-204-0503 or visit
WWW.WAL-MARTREALTY.COM

If you answered "E" you are correct! Visit our website to find out how a former Wal-Mart building can become the perfect new home for your business.



Look Upland.

Where
 Investment Properties
 &
 People Unite



Management Free Investments • 1031 Solutions
 Net-Lease Investments • Tenant-In-Common (TIC) Opportunities



3800 Wells Fargo Center • 90 South Seventh Street • Minneapolis, MN 55402
 612.332.6600 • www.upland.com