

Student housing proves to be 'steady and secure' opportunity

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Andy Knapp wagered there was a market for luxury off-campus housing when he first invested in student condos six years ago in Waterloo, Ont. Now, he owns seven dwellings that bring in nearly \$17,000 in monthly rent.

"It's not hard to get these places filled," because the condos are right next door to the city's two universities, says Mr. Knapp, 40, who, in addition to investing in real estate, is the founder of a Toronto renewable energy company and a Waterloo University graduate. "I rent now to a lot of [Wilfrid] Laurier University hockey players and foreign students."

Student housing is gaining more attention among higher-net-worth investors. Some are buying newly built apartment-and-townhouse condos targeted at this niche, while others are investing in private real estate investment trusts (REITs) that own student accommodations.

Off-campus housing has also gone more upscale, with some offering stainless-steel appliances, granite kitchen counter tops and in-suite laundry. Rooftop patios, fitness studios and theatre rooms are in the mix, too.

It's a far cry from the days in Waterloo when student housing meant renting old or run-down buildings, recalls Mr. Knapp, who is president of Toronto-based Moose Power Inc. "I lived in a crappy townhouse 20 years ago."

In addition to individual investors such as Mr. Knapp, who says he prefers the stability of investing in real estate to stocks, student housing has also landed on



Off-campus housing has gone upscale, with some offering stainless-steel appliances, in-suite laundry and communal theatre rooms, such as the one above in an IN8 Developments building in Waterloo, Ont.

the radar screens of pension funds and other institutional investors. The Canada Pension Plan Investment Board, for instance, has been investing in operators of off-campus accommodations in both Britain and the United States since 2015.

"The appeal is a very steady and secure source of income," says Andrew la Fleur, a Toronto real estate agent who deals with individual investors who buy condos. "If you buy a property right beside the university, it's basically guaranteed tenants forever."

Students may be viewed as bad tenants since they don't have a credit history, but people in the game "know the secret that students are some of the best tenants that you can have," Mr. la Fleur says. That's because they often require parental guarantees so "you are not really renting to the student, but to the parents."

Some people will own one or two student condos, while "other higher-net-worth investors may own five or 10 units," he says. Toronto investors, for instance, will buy preconstruction student condos in smaller cities because prices are cheaper there, but the rents they can charge won't be far off from those in Toronto, he adds.

The ease of investor ownership can be very appealing, Mr. la Fleur says, particularly if developers sell student condos along with a furniture package and offer property-management services for free during the first two or three years.

Still, location is key – whether it's a brisk walk from campus or close to transit – when investing in student housing, he notes.

Also, because big-name developers are not involved in these projects, investors need to do their due diligence or deal with a developer with a strong track re-

cord in the space, he adds.

Toronto-based developer IN8 Developments Inc., a pioneer in the student-condo niche with its Sage brand, now has 13 buildings in Waterloo. Two more are in the construction phase in Waterloo and Kingston.

Student housing in Waterloo has become a more balanced market, while Kingston presents an opportunity because it has the lowest overall vacancy rate in Ontario – the percentage of rental units that are unoccupied – of 0.06 per cent, says Darryl Firsten, president of IN8 Developments.

Other investors seeking exposure to student housing have gravitated to private REITs, which invest in this niche and whose unit prices are not affected by daily stock-market activity. These investments are sold by an offering memorandum, a legal document explaining the objective and risks of the private investment.

The eligibility rules vary by province. Accredited investors with a net worth of more than \$5-million, or \$1-million in financial assets, or who earn more than \$200,000 (\$300,000 with a spouse), can qualify. For non-accredited investors, net worth and income can dictate the amounts they can buy.

Toronto-based Alignvest Management Corp. last year launched a private REIT that invests only in student housing and provides a quarterly distribution. Alignvest Student Housing REIT, which has about \$200-million in assets, now owns three buildings for a total of 1,315 beds in Ottawa and Waterloo.

Canada is 10 to 15 years behind other countries where off-campus housing has become a more

professional and institutionalized living experience for students and an investment opportunity, says Sanjil Shah, managing partner at Alignvest.

Only 3 per cent of Canadian university students live in purpose-built, off-campus housing, compared with 10 per cent to 12 per cent in the United States and Britain, respectively, Mr. Shah says. "It is not a market that has been developed."

Alignvest aims to be a major consolidator in student housing here and create an attractive opportunity for institutional investors, he says. "Currently, it is higher-net-worth and family-office investors who have put the most money in the REIT."

This private REIT isn't the only pure-play, off-campus housing investment in Canada. Toronto-based CHC Student Housing Corp., which is listed on the TSX Venture Exchange, has been trying to acquire and manage off-student housing. However, it has suffered losses and its stock has fallen into penny-stock territory.

Toronto-based Centurion Asset Management Inc. oversees a private REIT that also owns student housing, but it is only part of a diversified portfolio. The \$1.7-billion Centurion Apartment REIT is 17 per cent invested in off-campus accommodation, in addition to apartment buildings and mortgages.

This REIT, which was launched in 2009 and offers a monthly payout, has more than 2,700 beds in nine student properties in Waterloo, Montreal and London, Ont. It is still the largest REIT owner of student properties.

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