



## Looking Back, Looking Ahead

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Scion provides consulting, development and management services exclusively for student housing.

With 2009 behind us, I've been reflecting on all that commercial real estate — and particularly the student housing sector — have been through in the past few years. I can't quite remember what we told ourselves to justify ever-lower cap rates or what convinced lenders and investors to believe what they did about infinitely increasing values. But we don't need yet another post-mortem on the subject and I certainly can't add to what's already been said. Instead, feeling a bit older — and hopefully somewhat wiser than a year or two ago — I am trying to pay as much attention and learn as much as I can. It's a time to imagine what the next few years will bring and to attempt to discern where the opportunities may lie — and undoubtedly many have been created. In that process, three things about the student housing industry become apparent:

First, our industry is a surprisingly insular and parochial group with limited diversity of background or perspective. I see the same people at the same conferences listening to the same presentations and reading the same materials. Everyone piling on to develop on the same campuses, then watching each other closely, adding a new amenity, raising or lowering prices by a few dollars. One probably can't lose too badly following the pack and few people ever lost their jobs for doing so, but it's not much of a recipe for long-term success.

Sometimes, the student housing business seems so inbred, with so many senior executives tracing their roots back to one or two firms, it surprising we're not all hemophiliacs. At my firm, we've gone out of our way to hire a mix of people, those from within the student housing sector and those with no background in the field short of perhaps living in their freshman dorm. We often have more to learn from the best practices in the hotel, commercial office or conventional multifamily fields, or businesses outside of commercial real estate altogether, than we do hiring the guy who did the same job for the property across the street.

Second, finding opportunities requires a lot of work. Every asset is a potential opportunity, just as every asset is a potential money-losing bomb. Each one has to be examined on its own terms.

I remember meeting with a private equity fund manager who told me he was, “only interested in student housing with all private bathrooms per student.” It was a mantra and he held to it with religious fervor (or it may have been the extent of his knowledge about

student housing). No matter that in some instances that rule made sense while in many others sharing bathrooms might be equally viable, and perhaps more lucrative to ownership; this is what he knew and it wasn't going to change. In another conversation with another executive managing a larger pool of institutional money, I was told that opportunities in student housing existed only in states with the highest projected population growth over the next few decades: California, Nevada, Arizona and Florida. It seemed a rather unimaginative strategy and one that literally any person with access to the Census Bureau website could discern for themselves. I've heard that first manager's fund lost a lot of money the last few years, although he's still employed; the second one is out of a job.

So where do the opportunities exist? They're specific. Catch-all, generic beliefs and philosophies, standardized room layouts and basic demographics will often gloss over them.

Third, we can be in the real estate business or in a specialized operating business. I vastly prefer the latter. The real estate business is great in good times and abysmal in bad times, but a skilled operator can always add value and can always make money. One of the best things about acquisitions at the moment is that we buyers are no longer competing with those assuming unrealistic cap-rate compression ("sure, we'll buy at a 7 cap and sell in two years at a 6! What could go wrong?"). In other words, if you don't have a plan to actually generate reasonable income and aren't prepared to do the hard work it takes to accomplish that, you may as well not even bid. Not only does the current environment offer a healthier dynamic in which to do business, but the possibility of generating respectable income, unlike in many other types of real estate, actually exists in multifamily and student housing. We should embrace that opportunity and endeavor to be better at generating income in the assets we own.

It's already a cliché to say that, coming off the volatility of the last few years, it's time to focus on the fundamentals, but it really is true. By expanding our knowledge and perspective, looking outside the usual sources, we can learn from others' successes and failures. That's a lot less expensive than learning only from our own mistakes. By having the focus and perseverance to really examine opportunities that come our way, we may make some decisions that on the surface appear contrarian, but contain upside that others miss. Finally, by making the commitment to be effective generators of income, as opposed to relying on wider market forces of financing and appreciation, we take our destinies far more into our own hands and develop skills that will always be valuable.



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