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## Dorms and the city

*As universities see enrollment skyrocket, more NYC developers turn to building student housing*

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*180 Broadway and the Stuyvesant Park Residence on East 15th Street*

Students are often told that getting an education is a good investment in their future. But New York City developers are increasingly taking that advice, too.

Indeed, as local universities rush to accommodate swelling enrollments, more and more developers are turning to institutions of higher education as business partners.

Demand for education goes a long way in explaining the phenomenon: Nationally, full-time students enrolling in two- and four-year colleges and universities grew 45 percent between 2000 and 2010, according to the most recent figures from the National Center for Education Statistics. That government agency estimates the enrollment of students under 25 to increase by 11 percent over the next 10 years, while enrollment of students older than 25 is projected to rise by 20 percent.

To house that onrush of students, "it's relatively common for the public institutions and smaller private universities [to team up with private developers]," said Dan Fasulo, managing director at Real Capital Analytics.

Industry insiders say that while developers teaming up with universities is nothing new, the opportunities to partner are growing as schools keep up with more incoming freshmen. Smaller universities in the city also want to stay competitive, and developing first-class student housing is one way to do that, said Miki Naftali, chairman and CEO of the Naftali Group, which is currently partnering with SL Green Realty on a dorm development for Pace University.

By contrast, "NYU, Columbia and Fordham are wealthy enough to buy or build their own facilities, and usually only team up when they have to," Fasulo added.

The higher-education partnerships build off of a trend The Real Deal wrote about in last month's issue, which detailed how developers are agreeing to include elementary and middle schools in, or near, their residential development projects. However, developing for a university is a different beast, sources say.

Still, they note that it's a win-win for both the developers and the schools.

The developers are drawn to the projects because the risk is relatively low given that they have guaranteed tenants.

Meanwhile, schools are glad to hand over the reins to developers that are experienced with the complexities of constructing large projects. Smaller universities also don't have deep pockets to acquire the property or land to develop these projects. Yet for experienced developers, getting financing for these projects isn't any different than obtaining construction loans for other build-to-suit projects, Naftali said.

"It's traditional financing, same as building for a single retail or office tenant," he said. And for Naftali, building student housing isn't that different from developing condos, the company's traditional business.

"It's not necessarily easier, but there's a clearer direction," Naftali said. "We are working with one client, not with 200 different clients. And this one

client knows exactly what they want.”

### Getting in on the action

A host of developers have recently gotten in on the dorm-building action.

SL Green's first foray into dorm development is 180 Broadway, a mixed-use student housing project for Pace that the firm is developing with retail investor Jeff Sutton.

SL Green owns the dormitory portion of the project — which sits next door to the future Fulton Street Transit Center — and is leasing it to Pace.

Sutton, meanwhile, is getting the retail part, according to Brett Herschenfeld, senior vice president at SL Green.

No retail tenants have been signed yet at the project, which is slated to open by next fall, but Herschenfeld said tenant interest has gone up “exponentially” because the transit station is slated to be completed in the next 12 to 24 months.

SL Green is already onto its second project for the university.

In August, SL Green and the Naftali Group paired up to buy a development site at 33 Beekman Street for an undisclosed amount.

The duo brought in Israeli company Harel Insurance and Finance as an investment partner, and the team is planning a 30-story student housing facility for Pace. The two developers share a 51 percent interest in the project, while Harel has the remaining 49 percent.

The number of units in the dorm building — which is scheduled for completion in 2016 — has yet to be determined, according to Herschenfeld.

Unlike 180 Broadway, 33 Beekman won't have any retail. Its purpose is to offer “brand-new, state-of-the-art” accommodations for Pace students currently living in university housing in Brooklyn Heights or in “dated, inferior dorms in Manhattan,” he said.

While many developers have just recently gotten into building dorms, Arun Bhatia, head of AIB Development Corp., is no stranger to the sector.

The developer sold off the bottom 32 floors of his luxury condo the Capri on 55th Street to Marymount Manhattan College for a reported \$57 million in the early 2000s. (He kept the higher, more valuable floors as luxury condos.)

Bhatia has also completed three student housing developments for the New School in the last 10 years: The 200-bed 20th Street Residence Hall in Chelsea, the 175-bed 13th Street Residence in Greenwich Village and the most recent 635-bed Stuyvesant Park Residence near Union Square.

Bhatia sold the former two to the New School for a combined \$45 million, Crain's reported. But he still retains a stake in the retail portion at the 20th Street Residence Hall.

And Bhatia is not letting up.

In August, he filed plans to construct a 43-room dorm with ground-floor retail at 35 Cooper Square. There's no word on which university it would serve, but both NYU and Cooper Union are right nearby.

In addition, Bhatia still owns a parcel on East 73rd Street between York Avenue and the East River that could accommodate up to 1,000 dorm beds, according to his website. Calls and emails to Bhatia's company were not returned.

### Not always easy

The first go-around on a dormitory development takes patience.

Unlike speculative developments, constructing a building for a university must be customized for the school's needs from Day One, Herschenfeld said.

“Most buildings you design from the outside in. This is from the furniture out,” Herschenfeld explained.

Still, once a developer gets the knack of working with a university, it can be a good source of repeat business.

“Once you're familiar with the needs of the university, it makes the second project go a lot smoother. It's almost an assembly line where we can deliver that dormitory product quickly and efficiently,” Herschenfeld added.

Not all would-be dormitory projects are slam dunks, either.

Last year, developer Edward J. Minskoff Equities scrapped plans to develop a 635-room dorm at a 19-story property in Long Island City and sold the building to Alma Realty for \$21.5 million.

“The site was so large, 1,600 beds, too big for anyone college,” said Jeffrey Sussman, executive vice president at Minskoff Equities, in an e-mail.

“That was one of the issues.”

### More in the pipeline

Developers looking to get in on the dorm-building action will have a handful of new projects to vie for in the coming years — in addition to other higher-education projects.

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This summer, the city council approved NYU's revised expansion plan to develop 2 million square feet of classrooms, dorm rooms and office space just south of Washington Square Park. Construction on the expansion is slated to begin in 2014, but no developer has been disclosed.

Cornell University is, of course, also planning a major expansion on Roosevelt Island for its new engineering and applied science graduate school.

The project will also create more than 2 million square feet of academic buildings and student housing by 2037. The project's campus is scheduled to break ground in 2014 with the first building to open three years later.

Cornell didn't respond to e-mails or calls asking about the selection process for developers.

Meanwhile, the City University of New York is considering plans to develop a hotel in Long Island City on Skillman Avenue to expand its hospitality program. Crain's reported in August that the university hired Cushman & Wakefield to review the site's zoning and possibly choose a developer.

For its part, SL Green has been approached by a handful of other universities about future construction, Herschenfeld said. He said he can envision that leading to a new development platform for the company.

"We love the product. The ability to develop to a specific use with a user in place is every developer's dream," said Herschenfeld. "This is something we want to repeat over and over again."