



In the News! Globe & Mail, Ontario Edition, July 14th, 2010



POSTSECONDARY EDUCATION

U of T teams up with private sector to solve student housing woes

BY STEVE LADURANTAYE
REAL ESTATE REPORTER

Canadian universities are turning to the private sector to solve their campus housing problems.

They are looking at adopting an American trend that has seen dozens of schools partner with private equity firms to construct condominium-style buildings that fill the need for student living and also provide investors with the types of returns generally associated with apartment complexes.

The University of Toronto has quietly set a plan in motion that would see a new 30- to 40-storey residence built next to its downtown campus and funded by a private equity firm, which would make it the first university in Canada to erect a large tower offsite with private money.

University of Toronto plans to build a condo-style residence with funding from a private equity firm.

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New residence would provide rooms for up to 1,400 students



David Lehberg, CEO of Knightstone Capital Management Inc., says the company would finance and build the tower at a cost of about \$120-million. SARAH DEA FOR THE GLOBE AND MAIL

» Knightstone Capital Management Inc. has agreed to finance and build the residence, at an estimated cost of \$120-million. The Toronto-based company plans to raise money from private investors, such as pension plans and private equity funds, to complete the tower.

Universities have expanded dramatically in the last decade, but haven't been able to keep pace with residence space because funding is usually directed toward new laboratories, classrooms and research. Typically, new residences have been paid for by additional student fees.

Simon Fraser University in British Columbia is among the schools seeking private investors for public residences. Trent University in Peterborough, Ont., has floated the idea of building a private residence on campus property for several years, but has faced stiff student opposition.

More than 75,000 students attend the University of Toronto's three campuses, but the school can only provide

housing for 7,400. That leaves much-coveted international students scouring a new city for accommodations, posing a challenge for recruiters.

"We know we don't have enough beds," said Nadeem Shabbar, the university's chief real estate officer. "So when the opportunity comes along to do a joint development with a private developer, it's exciting because we don't have to find the capital."

The U of T tower, which has yet to win approval from city hall but whose owners would like to start construction in the spring – would be just east of Spadina Avenue on College Street. It must overcome several obstacles, however, with the city needing to overturn height and density restrictions before construction can proceed.

The university owns half of the site, Knightstone owns the other. Knightstone would collect payment from the students, and pay the university a cut as rent. There would be rooms for up to 1,400 students, and units would cost the

same as those currently offered several blocks away at the university's 1,050-room Chestnut Residence, which is about \$10,000 per school year for a single room.

Managers would also offer residence spots in the building's two- or four-bedroom units to students from Ryerson University and York University.

Knightstone chief executive officer David Lehberg said investors in the United States and Europe are used to the idea, and are demanding yields similar to what they would expect from any other multi-unit residential project. In London, England, the Blackstone Group just opened Europe's tallest student residence to try to help solve the city's acute shortage of academic beds.

But it took more than a decade for money managers to warm up to the idea of student housing in those countries, and Mr. Lehberg knows he's starting from scratch in Canada. It's a formidable challenge in a country that

doesn't associate the private sector with higher learning.

"There's been a huge interest from insurance companies and other big property owners but there is still some education required," he said. "We just want to let the schools focus their capital on education and leave their hotel-like functions to the right partner."

The Scion Group, a Chicago-based real estate advisory company that has worked with dozens of universities and private equity funds to build new residences, provided the initial cost estimate for the project and said there's a lot of work to be done if all of the partners are to understand the project before breaking ground.

Vice-president Eric Luskin said while the schools are getting somewhat of a free ride on the backs of their investors, any decline in residence quality has immediate – and often irreversible – consequences.

"It is still their names that are associated with the properties."

THE GLOBE AND MAIL 

July 14, 2010

Universities team up with private sector to solve student housing woes

By Steve Ladurantaye
From Wednesday's Globe and Mail

University of Toronto looks beyond its own coffers to make \$120-million residence a reality

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"It is still their names that are associated with the properties," he said. "You have to have things that eat into profits like residence managers. But you need those things to maintain the quality of the facility, so our job is to make sure everyone understands the other side's perspective."