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Kayne Anderson Deal Shows Student Housing Winning Favor

By Peter Grant



Capstone Cottages of San Marcos at Texas State University

Kayne Anderson

Investors are getting more comfortable with student housing.

Consider [Freddie Mac](#)'s sale earlier this month of \$734.5 million in commercial mortgage backed securities that were primarily backed by about 8,800 units of student housing owned by Kayne Anderson Real Estate Advisors LP.

Freddie Mac has been buying and securitizing loans collateralized by student housing since 2009. But until now student housing mortgages have made up small parts of mortgage backed securities pools that consisted mostly of more conventional mortgages backed by standard rental apartments.

In this month's deal, more than 80% of the \$734.5 million pool was made up of student housing mortgages and the collateral is all owned by one landlord, Kayne Anderson, a unit of Kayne Anderson Capital Advisors LP.

"This isn't an alternative asset class anymore," said Albert Rabil III, chief executive of Kayne Anderson Real Estate Advisors. "If you bring high quality student housing properties to the market they should trade on par with high quality multifamily assets."

One reason investors are coming around: student housing's performance has been "stellar" since the downturn, said Richard Martinez, a managing regional director with Freddie Mac who worked on the deal. "Other real estate classes bumped along," he said. "We didn't see any vacancy and we saw increasing rents" with student housing.

Kayne Anderson Real Estate, which has \$1.6 billion in assets under management, has been investing in student housing since 2007 and currently owns about 18,500 units. The collateral in the Freddie Mac deal is made up of 13 properties connected to such schools as the Texas State University; University of Arizona; the University of Oregon, Indiana University and the University of Alabama.

The total size of the Freddie Mac loan actually is \$816.1 million. The \$734.5 million commercial mortgage securities offer makes up the senior piece of that debt. The junior piece of \$81.6 million is being sold by Freddie Mac to an investor that Kayne Anderson found. The senior and junior debt combined is equal to about 71% of the value of the property.

The Freddie Mac loan to Kayne Anderson, which was made late last year, has a 10-year term and a floating interest rate, equal to the London Interbank Offered Rate plus 2.1 percentage points. "There is very significant pre-payment flexibility which was important to us," said Mr. Rabil.

Student housing used to be considered an "alternative asset class" in the commercial property business that wasn't as popular among investors as more mainstream assets like office buildings, rental apartments and malls. Both equity and debt investors needed higher yields to do deals.

But those premiums increasingly are no longer necessary. "Clearly there is higher acceptance of student housing by investors," said Mr. Martinez, of Freddie Mac.