



Six Points that any Buyer of Student Housing Should Consider

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Student housing is attractive to investors, especially at much sought-after universities with growing enrollments. Unlike a traditional multifamily transaction, a student housing deal places great importance not only on the current occupancy of a project, but on future or pre-leasing occupancy because the tenant population is less stable. Student renters often spend less than a year in a residence before moving on for the following school year.

Here are six insights that any buyer of student housing should contemplate:

1. While current occupancy is important like in regular multifamily deals, pre-leasing by the end of the current school year for the following school year is material for student housing transactions.
2. A buyer may require a “condition precedent” to its obligations to close with respect to future occupancy of the project. This usually means that a minimum percentage of beds at the project must be pre-leased for the following school year by closing. “Leases of beds” rather than “leases of units” are often used because each student typically signs an individual lease.
3. Additionally, or in lieu of a “condition precedent,” a buyer may require an automatic purchase price reduction in the purchase contract if a minimum percentage of pre-leased beds has not been satisfied by a certain date prior to or at closing.
4. A buyer may offer incentives to the seller’s property management team to boost the pre-leased rate (i.e., a \$100 bonus for each pre-lease executed during the term of the purchase contract, provided closing occurs).
5. Defining acceptable pre-leases also is important for a buyer. The parties should define the academic year and the minimum monthly rental rate for each lease. This can be accomplished by (i) defining such minimum rates on an exhibit to the purchase contract; (ii) stating whether additional charges must be included in each lease, such as a per-bed monthly water reimbursement fee; (iii) stating whether guarantors are required for a lease (often, a parental guaranty may be required); (iv) stating whether additional security deposits are required for particular tenants (such as international students or others for which enforcement of a guaranty could be difficult); and (v) requiring that certain traditional or unique guidelines be satisfied with respect to leases per an exhibit to the purchase contract defining same.
6. When determining “monthly rental rate” in a lease, the buyer should seek to have the purchase agreement define monthly rental obligations for tenants without including any credits or financial accommodations afforded to the tenant that are applicable and/or payable at or after closing (i.e., free or reduced rent for the last month or two of a lease).

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