



Development Focus

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JJ Smith, COO, CA Student Living

With nine new projects opening this fall, CA Living's chief operating officer, JJ Smith, has his hands full and his eyes on a lot of moving parts.

SHB recently spoke with JJ Smith, chief operating officer of Chicago-based CA Student Living. The company, a subsidiary of CA Ventures, has nine student projects it is readying for fall 2015 opening, and more under development for 2016 and 2017. The company made news earlier this year when it acquired six entitled-for-development sites from Campus Crest Communities. CA Student Living is already under development with a number of those sites. As one of the top developers right now in the sector, we wanted to find out how CA is managing its many development projects.

SHB: Tell us a little about the history of CA Ventures, from its time as a different company, why/how that changed and why the focus is different now? How are you organized with CA Student Living?



Smith: We were founded a decade ago by Tom Scott as Campus Acquisitions. CA Student Living, a subsidiary of parent



Adjacent to the University of Washington in Seattle, the two buildings comprising Identity Apartments contain 100 micro units each.

student housing markets across the United States. The name change last year better correlated with our development focus — no longer just ‘acquisitions’ — as we have developed about 30 properties since 2008 representing \$2.5 billion in value creation. We’ve also expanded into other asset types like multifamily, seniors housing, hospitality and office, which made our ‘campus’ name less relevant. CA Student

Living is a vertically integrated investment, development and property management company dedicated to creating premier housing destinations for residents to live, study and play.

SHB: You have a lot of development in the pipeline now — all at one time. Why is now the right time for that?

Smith: We really believe there’s a short window of opportunity to develop these projects, given current interest rates and cap rate climate. Interest rates, we can assume, are going to rise and compress the spread between cap rates and going in return on cost. We believe right now that we’ve got an opportunity to seize the ideal financial climate we’re in. We’ve also built the infrastructure to sustain the growth of this pipeline. Our organization is really built right now to develop between eight and 10 projects per year and we’re continuing to find, what we believe, are the best opportunities in these markets.

SHB: There are other people who will just as passionately indicate now is the time to invest, and not take the risk on development. What’s your take on buying versus building in today’s climate?

Smith: Right now, we’re certainly built for development but we’re also gearing up to own the assets long term that we’re developing as well as acquire other core assets from others and have built a best-in-class management and leasing organization. Both are the case here in that we have an opportunity to not only develop, but invest in these properties long term. We’re really starting to turn our focus toward long-term capitalization of these projects.



happen again? If so, what would happen then? Would you continue to reorganize and get back into the game? Do you see a circumstance where someone knocks you out with an incredible offer that you'd be crazy not to take advantage of?

Smith: First and foremost, we are an investment company. So we're constantly thinking about the viability of the assets individually and as a whole in the short run and long run. We're always exploring all options for the broader portfolio. I think it would be a long shot to dispose of an entire portfolio again, given our current capitalization structure that is going to allow us to hold our assets long-term but we will never say never. There might be one-off assets that are highly sought after by other firms and we're going to be all ears and explore all options. Our goal is to build the organization for a third time in terms of portfolio and own that for a long haul.

SHB: Going back to the time of the company's deals with ACC and Kayne Anderson, can you give us more about why those came about? Did you have that high of a capacity for projects back then?

Smith: Prior to the ACC sale, we hadn't sold anything in our nearly 10-year history. Our organization was doing two to three core infill projects a year on the development side and doing those very well. As you know, core infill is now all the rage as REITs and others dispose of garden-style outskirts product in favor of it. Since then, we've taken that portfolio sale as a springboard to grow into a new and diverse, multi-asset class organization. We're really at our largest in terms of corporate/employee structure than we've ever been so there was never a downturn for us but more a steady, calculated evolution. The sale to ACC was an off-market transaction; we weren't setting out to dispose of our entire portfolio in 2011. We were approached directly. We didn't set out to do it, but we took advantage of what we felt were favorable market conditions and cap rates at the time and the strong demand for core infill product.

SHB: Same with Kayne Anderson?

Smith: Yes. Our former CIO had a relationship with KAREA's head of investment and they put the deal together and had it close in two parts. We closed on two properties — Rise at Northgate and Level at Tucson — in fall of 2013, and then an additional three in fall of 2014 — Next at Tucson, Fuse at Purdue and Mountain Lofts at BYU-I. Those were all off-market. We felt like the climate was right to consider those for disposition. Meanwhile, we were rebuilding our entire pipeline. We came out with nine



You've got a lot of development underway right now, we know.

Smith: CA Student Living will continue to grow rapidly in underserved Tier 1 — and possibly some Tier 2 — university markets where barriers to entry are high, university-owned beds are low, where we can assemble core-infill pedestrian locations suitable for high-density, ground-up development. CA plans to own and operate 30,000-plus beds within four to five years and intends to fill that goal about 75 percent through our own developments and 25 percent through acquisitions of existing core assets. After our notable dispositions, CA Student Living currently owns and operates about 3,000 beds in six markets. CA currently has nine properties (5,500 beds) being delivered in fall 2015 and intends to deliver another eight to 10 properties for fall 2016 and 2017, respectively, including some combining hotel uses with student apartments under one roof. We are even taking our CA Student Living model internationally with a handful of mid-rise 10- to 15-story developments in South America, set to break ground soon.

SHB: Your product is fairly high-end. Do you worry there are too many new high-end student housing rental properties?

Smith: The reality is that where we're developing and the types of buildings we're building are kind of forcing our hand into the higher end of the rent scale, given land basis and core location being much higher than an outskirts location. Most of the vertical construction is exponentially more expensive than garden-style apartments. Its really a function of where these projects are being built but we're keeping a close eye on it in terms of each individual market and how many projects have been delivered with the top-tier rent scale. We are definitely cognizant of it and not everyone can pay top dollar. We saw our land purchase from Campus Crest Group as an opportunity to diversify; we really want to have a portfolio that isn't just playing in the top 2 percent of the population. We view the CCG development sites we've acquired as a bit of portfolio diversification. We'll be offering a lower price point in our other urban high-rise in-fill projects.

SHB: How difficult is it to find and assemble the sites you guys typically do on your urban infill? What's the magic there?

Smith: It's extremely difficult and it is getting harder, I would say — certainly at the tier-one flagship institutions. We're rolling up our sleeves and being persistent and I think our ability to react and perform quickly in the transaction has now aided us in



for these core opportunities.

SHB: How did the Campus Crest land portfolio purchase come about? Was that an ideal situation?

Smith: We have a good relationship with a mutual equity partner, so we were shown the nine properties initially. We bid on three sites originally, then six. Tom Scott has a relationship with a group called Core Investment, and they came to us with a broader strategy to go after a larger number of the properties knowing that Campus Crest would be motivated to make a simple transaction that would take many of those properties off the books at once and quickly. Ultimately, we decided to go for six of the nine properties, which made us an easier choice for Campus Crest given that bundle. I don't think any other group had the appetite or strategy of taking down that many properties at once. In terms of how many we will ultimately develop, we're development oriented; we felt that we could really digest a number of the development sites and start in short order and we're looking to do just that. Right now, we're about ready to put shovels in the ground on four of the six sites. The timing just worked out great for us and for Core; we felt it was the right opportunity and the right time for us.

SHB: There were three Campus Crest sites that you didn't buy.

Smith: Yes, I think they were Western Michigan; San Angelo, Texas; and Toledo, Ohio. Those we felt like were furthest off our mark in terms of an ideal fit. For the other six, we had an opportunity to really purchase land with entitlements and permits in place at a price that allow us to do very well on the investment side after these properties are built. Entitlements take time and we really valued that heavily.

SHB: The amount of work you guys have is almost astounding. It almost seems like you would have to work 26 hours a day. How do you handle the workflow?

Smith: Tom Scott is a real estate wizard and the visionary which guides the ship and we've built a top-notch team of executives, many of whom have been together for years, to help lead our great team and make the engine run smoothly. Tom, John Diedrich and I have worked together on every new development together for the past seven years as well have very compatible skill sets. I think that that has allowed us to grow the organization the way we have and have the success that we've had. We've built a great team and hand-selected the people surrounding us that we felt like were

SHB: In your office, you have a monitor that shows all the developments at once.

Smith: Yes, we can monitor construction progress remotely, which given the volume of projects we're doing and the simple fact we can't be everywhere at once, it's nice to have. It allows us to monitor weather, gives us an idea about whether site productivity is going to be up or down if it's raining or if site activity is taking place on weekends. It's also a great security tool. We definitely rely a lot on it.

SHB: How did you get involved in student housing?

Smith: While working at an architecture firm in Chicago's West Loop area, doing a lot of residential work, I was introduced to Tom Scott and CA to do the zoning feasibility for a 24,000-square-foot Burger King site (309 Green) in Champaign, Illinois. I took a few days to study the local codes and came up with a 24-story, boutique high-rise with a rooftop pool deck, 416 bedrooms and just six units per floor. I remember Tom being impressed with the ambition and equated the design of tower over podium to a building that he developed in Chicago's river north neighborhood. It was a match made in heaven and Tom made me an offer to come aboard CA as a project manager to help oversee the construction of that project in 2007. However, after a few years as a project manager and not understanding all the real estate acronyms being tossed around at CA, I felt I needed to do something more. Architectural undergraduate training doesn't really prepare one for the business side of the world. So while managing about \$250 million in development from 2010 to 2012, I went back to night school and earned an MBA in real estate and finance and that rounded out my tool kit and allowed me to make a nice segue from architectural draftsmen to leading a development team. Since that time in mid-2007, we have now developed about 30 properties and over 12,000 bedrooms on about 25 campuses and haven't looked back. It's been a fun ride, I would say.

SHB: What is the CA Ventures philosophy of creating student housing properties? How do you develop differently?

Smith: CA's mantra is large state schools with good academics, core-infill pedestrian locations, with high barriers to entry, smaller units, larger amenities, high design flair and a focus on sustainability and a sense of community. CA's development projects are all very uniquely





highest levels with respect to security and life safety.

SHB: Tell us about a few of the student housing projects CA Ventures has underway?

Landmark at College Park is an 829-bed mixed-use property near the University of Maryland that CA is developing with R&J Companies.

Smith: We have nine developments of 3,000 units and 5,500 beds delivering fall 2015 and it's hard to pick my favorites as I like them all for different reasons. Landmark at College Park is an 829-bed, mixed-use property at the doorstep of University of Maryland campus. Conceived and entitled originally as the Book Exchange project by our joint venture partner, Josef Mittlemann and Ilya Zusin of R&J Companies, CA has financed, developed, constructed and pre-leased this property to 90 percent, as of today, for next fall. The property is exceptionally well located adjacent to the Greek community, along the Baltimore Avenue retail and nightlife corridor and directly across from the entry to campus. Its retail space has been fully leased to Target, which intends to open the nation's second Target Express urban concept that will provide both the property and neighborhood with convenience retail. The HERE Apartments in Champaign, Illinois, is a 593-bed, urban infill high rise community along the main retail artery of University of Illinois. Originally conceived and entitled by our joint venture partner, HERE Enterprises, the building is 27 stories and consists entirely of duplex units with dramatic two story volume living areas and features an automatic, robotic valet parking system. The entire high rise is comprised of two-story apartments. Its robotic parking system is believed to be the first of its kind in student housing. Uncommon Apartments in Eugene, Oregon, is a 380-bed, LEED Gold certified property. Located at 11th and Patterson, Uncommon is just four blocks west of campus near the retail/nightlife corridor. This property was built upon land formerly occupied by an underutilized four-story medical office building. The building has been applauded for its use of regionally sourced exterior wood cladding, rainwater harvesting features to water landscape, it's electrical vehicle parking stations and blends seamlessly into the Oregonian context. The property opened last fall and is 100 percent occupied currently and over 60 percent pre-leased for next fall already and has become one of the most sought after rental properties in Eugene. Another one of my favorites we recently completed is Infinite Apartments in Chicago. Infinite Apartments is an award-winning, historic adaptive reuse of under-occupied office space consisting of three landmarked, early 19th Century buildings. Now interconnected by a sky bridge, the property opened as modern high-end student apartments consisting of ground-floor retail, 124 apartments with 481 bedrooms, collaborative study lounges, state of the art fitness center and rooftop club room and outdoor roof deck with barbecue grills. The fully furnished apartments include quartz



area institutions including DePaul, Columbia, Roosevelt, Art Institute, Kendall, John Marshall, Robert Morris and many more. Identity Apartments in Seattle, adjacent to the dormitories at University of Washington, consists of two separate micro apartment buildings of 100 bedrooms each built on 8,000-square-foot parcels. The five frame over two concrete structures feature micro apartments with custom Murphy bed systems, compete with integral USB ports, LED reading lighting, bookshelves and armoires.

SHB: You have projects not just in student housing, but in other real estate sectors. How does the portfolio break down by sector?

Smith: CA is comprised predominantly of student housing with asset value in the sector exceeding \$4.5 billion by 2016; in office we have \$1.5 billion; multifamily about \$500 million; senior living about \$400 million; and retail/hospitality about \$100 million. I envision CA Student Living will continue to dominate the overall portfolio but foresee strong growth in our office, senior living and multifamily divisions over the next three to five years.

SHB: How would you describe your role within the organization?

Smith: I serve as the chief operating officer for the company and assist CEO Tom Scott with the management and operations of all CA Student Living's departments (investment, development and property management) and act as an integral link between these departments to execute CA's overall strategic goals. I oversee all new business generation (site acquisitions and co-venture partnerships) as well as direct all design, development and construction decisions to bring properties online on budget and on schedule.

SHB: What does CA look for in a property?

Smith: CA seeks core-infill, pedestrian-friendly sites within four to six blocks from a large flagship university where can build vertically. Depending on the zoning density, height and parking restrictions, we need anywhere from 0.5 acres to 2.5 acres for new development. We have built on as small as one-fifth of an acre at the University of Washington but our average site is probably two-thirds of an acre. We have closed and cleaned up a few former gas stations, dry cleaners and concrete plants and find a competitive advantage in not being scared off by a bit of cleanup work.



with rooftop amenities and floor-to-ceiling glass. That said, the architect in me loves a good adaptive re-use project (maybe for the complexity) where an underutilized building can be repurposed as new as we did to two historic and landmarked office buildings in downtown Chicago and converted into modern student apartments (Infinite Apartments Chicago, formerly the Gibbons and Steger buildings). We liked it so much, we are doing it again a few blocks away and converting a turn-of-the-century insurance headquarters, the Old Colony Building, into the Arc at Old Colony Apartments.

SHB: What challenges do you see facing the student housing industry going forward?

Smith: Many challenges out of our control have the industry at risk today but a few of the biggest include the declining college-age population; the cost of attending a four-year college; interest rates and their effect on cap rates; the rising cost of construction; and the threat of overbuilding. Most would say overbuilding is the top concern in the industry and I tend to agree. But we continue to find micro opportunities in a broader macro market. By this I mean that a development at College Avenue and Main Street on an overbuilt campus is still a sound investment given its location if developed with the right fundamentals in mind.

SHB: What makes you excited about coming to work everyday?

Smith: I love both the real estate business and student housing business in general and it's been fun to watch it mature from a 'niche play' within multifamily to a recognizable and sought-after asset class by countless private equity and life company firms as well as high net worth individuals. In addition, I love the people at CA as we've created a highly energetic and motivated group of individuals who also really love the business.

SHB: What do you like to do outside work?

Smith: Outside of the office, I have my hands full raising three young boys all under five years of age with my wife, Julia. We enjoy spending time with family, traveling and being outdoors.