



Specialty Product Student Housing Value-Add



2018 Global Training



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Student Housing Value-Add Overview

Is Student Housing Value-Add right for you?

- Rehab work should cost >\$4,000/bed, but <\$10,000/bed or >\$10,000/unit, but <\$25,000/unit unless approved by MF Real Estate Services
- 25% of the budget must be spent on interior improvements and furniture may not be counted towards the budget
- Property is within two miles of campus and has convenient access by either public transit, shuttle or pedestrian and school must have a minimum enrollment of 15,000
- Property <250 units or 625 beds and is at least 20 years old
- Acquisition or Refinance

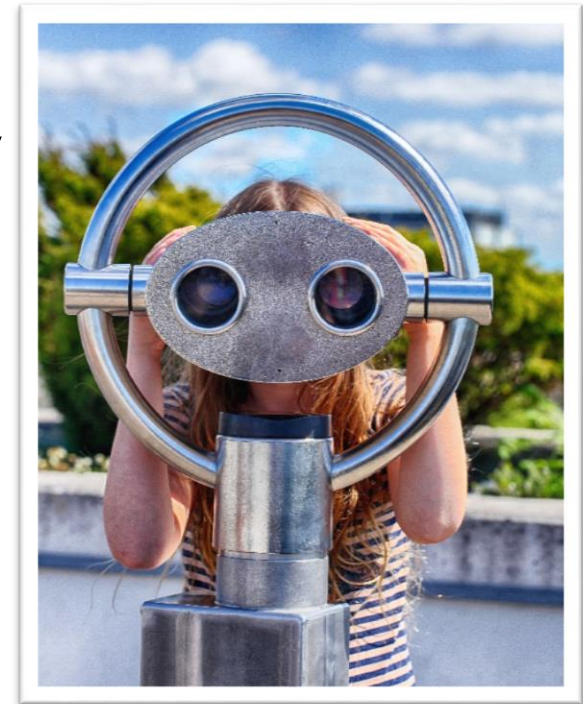


- Sponsor should be someone who has...
 - » Successfully completed the rehabilitation of at least three student housing properties, at least one comparable in size and scope to the subject Property, where tenants remained generally in place during rehabilitation
 - » Experience in student housing operations
 - » Sufficient financial capacity to complete the rehabilitation and carry the project to stabilization from its own funds if necessary



- Financial requirements are 1.5 times greater than the standard requirement
- A three month debt service escrow is required for all transactions during the renovation phase
- Upon completion of 40% of the renovation work, 50% of the escrow may be released
- Upon completion of 80% of the renovation work, the remaining amount of escrow may be released
- In addition to the completion requirements, the DSCR must be 1.25x or higher to qualify for release of escrow

- As-is income not materially disrupted
- 100% of units have Certificates of Occupancy
- Vacant units close to rent ready/good condition
- Does NOT involve major building systems (electrical, HVAC, plumbing, structural)
- No more than two (2) ancillary building systems (security, elevators, fire protection equipment, solar panel installation)



Student Housing Value-Add Pricing

- Pricing for the offering will be a +30bp premium over our conventional value add product.
- Student Value Add Grid:

Uncapped	0.00%-20.00%	20.01%-50.00%	50.01%-100.00%
	290	280	270

- 3-year loan term with 2 potential 12 month extensions
 - » 1st extension is borrower option with 0.5% extension fee
 - » 2nd extension at Freddie Mac discretion with 1% extension fee
- Full Term I/O
- Floating Rate (uncapped)
- Rehab must begin within 90 days of origination and completed within 33 months
- No Lockout – Prepayable at any time
- If refinanced with Freddie Mac at exit (no fee) otherwise 1% fee applies

Underwriting

- Comparable fixed rate mortgage that is most prevalent in the market (currently 7 year) utilized for fixed rate comparable sizing
- “As-Is” standard policy compliant DCR with a maximum LTV of 85%
 - » Reflect current operations on a pre-renovation basis
 - » Ex. R&M and Replacement Reserves cannot be lowered
 - » PCA should analyze Priority Repairs as if no renovations will take place
 - (replacement reserve schedule 3+2)

- “As-Stabilized” min DCR 1.35x and max LTV of 75%
 - » Must project the Property’s performance **as if the proposed renovations were already complete today**, using uninflated income assumptions.
 - » GPR and Income supported by market
 - » Expect an increase in taxes to renovations
 - » Replacement Reserves stay consistent with As Is
 - » Other Expenses need strong backing from Appraisal/Borrower provided support
- If the sponsor has owned the Property for fewer than 3 years, the Sponsor must have 15% or more cash equity

- “As-Renovated/As-Improved” value should assume that the proposed renovations were completed today and the property is operating at a stabilized level
- Should only contemplate how the renovations will impact rents and expenses (no trending/growth)
- Two sets of rent comps
 - » One set of properties the subject currently competes with
 - » One set of properties the subject will compete with post-renovation
- Ideally include two sets of sale comps, with one set being recently renovated properties
 - Challenging depending on the market

- Appraisal
- Budget
- Outlook on property growth
- Property inspection cannot be delegated

If you have questions, please feel free to reach out to your Production team.

Thank you!

