

Company Profile: Cardinal Group Investments

By Randall Shearin



Cardinal Group's first large purchase was this 495-bed complex near the University of Georgia in Athens, now known as The U on Riverbend.

Without capital and with only a little experience in student housing, the five principals of Cardinal Group Investments launched their company in 2004 with a lot of work ethic and dreams, and a passion for the business.

"We were in our early 20s and we used our own college experience to realize that student housing buildings were money makers," says Alex O'Brien, one of the company's principals. "We looked at student housing and realized it was an asset class we knew from experience, liked the macro trends, and there were great cash-on-cash returns. We also related better to students than our landlords did."

As well, when the company looked at other property types, it had trouble locating deals that didn't have cap rates of four or five percent in California, where several of the company's principals were located. For a young company that had little experience and no track record, it raised its first round of capital through friends and family. Its first investments were a few single family homes near Miami University in Oxford, Ohio, where two of the principals went to college.

"We started with the market we knew," says O'Brien.

It's also interesting to note that Cardinal launched as a side business. All of the principals were working other jobs, as real estate investment analysts and market analysts.

"We knew how to look at and value investments," says O'Brien. "When we were looking at our first investment of two single-family homes, we wrote a 35-page investment package and market summary for our friends and family investors. We treated those houses as if they were multi-million dollar properties. We have treated every investment as if we were an institutional player."

Cardinal next bought a small apartment building in the market, and then a small portfolio of apartments in Madison, Wisconsin. Each deal helped build the company's track record.

"At one point, we looked at our portfolio and realized we were very comfortable with scaling it," says O'Brien. "We realized if we could acquire an 80-bed project and run it successfully, we could do the same with 200-bed and 500-bed properties. Once the platform was in place, we could grow exponentially."

In 2009, the company bought its first large asset, the 495-bed University Apartments in Athens, Georgia, for about \$10 million (now rebranded as The U on Riverbend), and has gone on to acquire other larger properties.

In 2010, the company acquired the Metropointe Lofts, a large student housing complex serving Georgia Tech and Georgia State University in Atlanta. The property was distressed financially and operationally. Its turnaround story and the improvements that Cardinal made to the property earned the company two SHB Innovator Awards in 2012. Cardinal's track record of improving projects helped it win the Metropointe deal (Cardinal has since rebranded the project WestMar Lofts). The company was in competition for the property with firms who had a longer history and deeper pockets. Cardinal had done more due diligence and research, and impressed the lender, who had control of the project, with a thorough, defined business plan.

"Our approach to research won us that deal," says O'Brien. "We knew exactly what we were

getting into. This was really the black eye of that side of Atlanta and it was turned into the city's premier student housing asset."

Cardinal is continuing to focus on acquisitions like WestMar where it can creatively change an asset while increasing net operating income. It currently has five institutional quality projects as well as a portfolio of smaller properties that it owns. Most recently, the company acquired University Village Raleigh, a 210-bed complex serving North Carolina State University in Raleigh, for \$22 million from The Preiss Company and CampusWorks. In January, the company acquired University Towers, a 641-bed project serving the University of Texas in Austin.

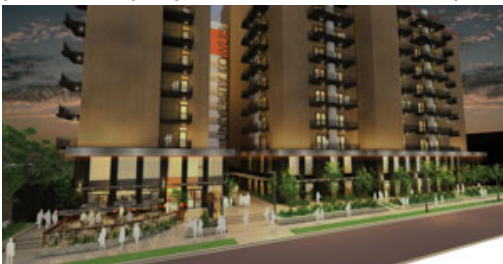


Cardinal Group acquired WestMar Lofts in 2010 and has completely turned the property around, making it one of Atlanta's premier student housing properties.

Cardinal has two acquisition strategies: a value-add strategy, such as WestMar, and a core strategy, where it acquires older properties that have been well maintained, but whose values can be increased through operation or capital improvements.

"We look at a lot of deals where just some basic adjustments and professional management would make a huge difference," says O'Brien.

The company is also seeking stabilized assets that are 10 to 15 years old and need capital improvement. The company remains a private investment group; its returns are based on the needs of its investors, so it can remain relatively opportunistic. Over the years, its investors have expanded from friends and family to high net worth individuals and family offices to private equity and institutional capital.



Cardinal purchased University Towers in Austin, Texas, in January 2012.

"We have treated our friends and family investors like they were institutional investors," says O'Brien. "We have an incredible amount of transparency and reporting for a small company. We approach the smallest deals with a big company reporting and due diligence mindset. We didn't have to change our company to attract or respond to institutional investors. We still had the same mindset, and that's what's allowed us to seamlessly grow."

Cardinal Group's management entity, Cardinal Group Management & Advisory, is also growing its portfolio by seeking third-party assignments. The WestMar project has generated interest from owners who want the same kind of creative solutions and of course, the same kind of results. Cardinal is also managing University Suites in Fairborn, Ohio, a 132-bed student housing project, on behalf of a bank that has assumed control of the property. The company delayed expanding its third-party business until it was in a position to deliver on the promises that it could make, according to O'Brien. Now that the company is at that point, it is aggressively growing its third-party management business.

"We work well with owners who don't want to sell their assets, but who are not afraid of bringing in a group who will make changes and add value," says O'Brien. "We are applying the same skill set we use with our own assets."

As it grows, Cardinal is being careful to remain disciplined. It is not over-valuing projects and it intends to only become involved in projects that will offer desired returns to investors.

"If we do two deals in 2012, then that is fine," says O'Brien. "If we do one that's ok and if we do none that's ok too. We're looking at opportunities that make sense as investments. We don't need to just place money. We'd rather do eight to 10 home run deals than 20 average deals."