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**The 'Echo' Boom Gets Louder***Published: December 04, 2008***By Michael Russo, Contributing Editor**

More than 17 million students enrolled in universities and community colleges last year, and most will be looking to private developers for their short-term housing needs.

"This is a very large market, and it hasn't even peaked yet," says Mark Humphreys, CEO of Humphreys & Partners Architects L.P., Dallas. "We won't see it slow down for 12 or 13 years, and we're about ready to feel the effects in the market-rate projects right now."

The latest statistics from the U.S. government's National Clearinghouse for Educational Facilities also show that an increasing number of the nearly 75 million students from elementary school on up plan to go to college in the years ahead.

"While the raw number of college-age students will continue to decline, the percentage of students going to college will continue to increase," observes Mike Peter, CEO of Campus Advantage in Austin, Texas. "We're near or at the tail end of the 'echo' boom right now."

The current generation of college students is called echo boomers because most are children of the baby boomer generation. They are shopping for off-campus housing in record numbers and demanding a lot more from developers than just amenities.

"The 'Y' generation [of students] are a great group of people," says Peter. "They are looking for a lifestyle experience and community involvement much more than just the 'box' they live in and the amenities it brings. They are more focused on success than previous generations, and we can't hire enough of them when they graduate."

Architects and developers familiar with the market say financing is easier to get and profits are considerably higher in off-campus student housing than in market-rate apartments. "It's the banks and lenders who are in distress, not the industries they are lending to," says Bob Koch, founder of Fugleberg Koch Architects in Orlando, Fla. "The appetite for quality student housing is very large, as long as you are offering a social structure in addition to a room."

Living on-campus has become more expensive, and in most smaller cities, students can conceivably cut their rents in half by going off-campus. "There's a lot of old housing stock out there, and developers are having a lot of success replacing it," says Dan McAllister, a principle at KTG Y Group Inc., Architecture and Planning, based in Irvine, Calif.

Nevertheless, off-campus housing is a specialty market that requires a keen understanding of students' needs and desires. "This industry is littered with developers who excelled in the multifamily market but failed in student housing," says Peter. "To succeed in this market, the experienced operator must understand that student housing is a different animal."

"We've done plenty of plans for student housing wannabes who couldn't make it work," agrees McAllister. "It can be an operational nightmare, and if you run it like an apartment, you will learn some hard lessons."

Other architects describe student housing as "the great differentiator" and are leery to work with developers that don't have a track record.

"It's a complex and changing market with a lot of barriers to entry, but student housing rewards those who can get through the process," adds McAllister.

### **Student housing's strengths**

On the surface, there's a lot for developers to like about today's student housing market. Besides easier financing, greater profitability and a seemingly endless supply of renters, the number of graduate schools is expected to double over the next several years. This means a greater demand for cost-effective, one-bedroom units that are often half the size of market-rate apartments.

Humphreys & Partners is designing a property with 340-square-foot units in Austin that will rent for \$2 per square foot. "That's pretty darn reasonable," says Humphreys, "and having higher returns than market-rate projects is a huge factor."

Currently, the architectural firm is helping build 30 student housing projects from California to Florida at around \$40 million apiece.

Humphreys' new e-Urban infill design offers developers an economical 90 beds per acre with surface parking. These units are up to 86 percent efficient, according to the company, compared with the typical 60 percent efficiency of a four-story building.

In addition, the e-Urban's elevator lobbies eliminate 50 percent of each hallway and the construction costs that extra space entails. For operators, the design saves on heating, cooling and lighting costs, while limiting noise and hallway damage.

"About 60 percent of our projects are high-density," says Humphreys. "We give students a small room, but they get their privacy along with it."

The company's most popular design is a four-bedroom, two-bath unit that takes up less than 1,200 square feet.

"We're charging \$700 per bed within walking distance of state-run schools that are way over capacity because their enrollments have gone through the roof," says Humphreys.

In fact, the turmoil in the financial markets is working in favor of state universities that offer lower tuitions. "We're seeing fellowships and grants all being heavily used today," says Humphreys. "Also, many parents set aside college money in protected accounts. Even if one parent lost their job, their children can still get grants or scholarships."

The green building trend is another positive for the student housing market. "Almost 100 percent of our projects are either LEED (Leadership in Energy and Environmental Design)-certified or feature a very high green rating," says Humphreys. "That's because the number-one concern an echo boomer has is how these properties are affecting the environment."

"Students are not demanding sustainability, but they expect it to be there," agrees McAllister at KTG Y Architects. "The average university would also be quick to promote a green and sustainable community."

KTGY's first LEED-rated project will be a LEED Gold building designed for American Campus Communities. An on-campus transit system and the availability of hourly car rentals allow students to leave their cars at home and save American Campus the cost of building a parking structure.

The competition between universities trying to attract and keep new students also works in favor of the student housing industry. "Housing quality can be a huge marketing tool for a university," says Koch, who has 45 years of experience in student housing design. "Parents also want to ensure that their children are safe."

Universities also want to see that their students are safe and satisfied with their accommodations, but few, if any, colleges want to be in the housing business, he adds. Other schools may be debt- or property-bound, and would much rather erect a new academic building than a dormitory. This leaves the door open for both on- and off-campus private development.

### **What's not to like?**

While the student housing market has a lot going for it, developers must rely on continued university growth to achieve long-term success.

"If housing is in short supply, then you have a captured market," says Koch. "But even the best schools are vulnerable to a decline in enrollment. An off-campus housing project is indelibly linked to the university market it serves."

"The university needs to have a growth plan in place," adds McAllister. "If not, you had better hope that there is secondary growth in the surrounding communities and your marketing report is solid."

Working with the average university can also be a challenge for developers. "They take an academic approach and often have big dreams but no money," says McAllister. "Only the most experienced developers are willing to put up with those hassles, particularly if they plan to own and operate."

Absorption is often a do-or-die affair, as students only shop for apartments once a year. Worse, if the builder misses a back-to-school deadline, the entire project can be put into jeopardy.

"There's a lot more pressure on the construction and development teams," says Koch. "If you miss your deadline, you can't default to another market or temporarily fill it in with other renters."

Florida developers who open student housing during hurricane season can get particularly jittery. A storm that delays move-in can put a tremendous financial burden on the property.

Also, should the student market atrophy, developers will find it impossible to attract traditional apartment renters because their housing designs are so unique. Most owners won't even consider an exit strategy, because there isn't one.

### **Design distinctions**

Thanks to students' dependence on cell phones, off-campus housing communities rarely need hard-

wired phones. However, on-line classroom connectivity via the university's intranet system is often a requirement. A resort-size pool and deck area, large spa and 24-hour fitness facility also boost rentals.

"What's in and what's out?" asks Humphreys, rhetorically. "Green building is in, but crown molding, hard-wired phones and carpet are out, along with shared bedrooms and baths. I've got three daughters at home who serve as my in-house consulting staff."

The kitchen won't be used for community cooking, so the size of stoves and other appliances can be scaled back. Lockable kitchen cabinets are popular, along with personal refrigerators in every bedroom. In fact, most architects design their bedroom furniture to accommodate this key appliance.

"Never design a bathroom without a sink, but don't put two sinks in the same bathroom," warns Koch. "One sink in the bath and a second outside works best, especially for girls."

Because Mom and Dad pay for the education of most undergraduates, these students want all the luxuries, while Master's candidates prefer only what is necessary to graduate—study rooms, a business center and a laundry room.

### **Social spaces**

"We've included five-screen theaters, video suites and football and basketball courts on some projects, and most colleges are looking for these items to set themselves apart," says McAllister. "Market-rate apartments can't compete with this, so students will gravitate toward purpose-built facilities."

Because opportunities for socialization are key, Campus Advantage communities all feature "resident life programs" with community assistants available to engage the residents and help with outreach. In fact, every meeting place, laundry room and entertainment area needs to be designed with socialization in mind.

"Unlike multifamily, our residents don't just come home and shut the door," says Peter. "There's a lot of engagement going on, which builds a sense of community, and a sense of ownership, among the students. If you can help them bridge that step between home and college, you will be successful."

The first thing Peter notices when visiting poorly managed properties are the "penalty" signs for leaving out trash or being late with rents. "Calling them 'kids' and treating them that way will result in a negative attitude," Peter explains. "We levy fines as well, but we cover them during move-in and in person-to-person, floor-wide meetings."

Student housing is also driving multifamily trends, and students who graduate and rent their first apartments will wonder where the bundled cable and Internet, community events and amenities have gone. "Student housing is no longer the red-headed step child in this industry," says Peter. "It's become a leader in terms of design trends, amenities and outreach with other residents."

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