



January 24, 2012

Public College, Private Dorm

By RONDA KAYSEN

With state budgets tight and demand for a college education at a high point, public universities across the country are increasingly turning to the private sector to build and finance on-campus dormitories.

Even before the recession, states found that companies that specialize in student housing could build residence halls more rapidly and cheaply than universities could. They can ease the burden of being a landlord. And perhaps most important, these partnerships free capital for facilities like classrooms and laboratories.

But as bad economic times make these arrangements even more appealing, the new efforts raise questions about how private ownership of dorms will affect student life and costs in years to come.

Public universities that have entered into or are considering such partnerships include the University of California, Irvine; Arizona State; Portland State; the University of Kentucky; and Montclair State in [New Jersey](#), which in the fall opened the Heights, a two-tower complex with 2,000 beds and a 24,000-square-foot food court that officials say is the largest residence hall complex in the state.

Private colleges and universities have been slower to embrace the concept as they have traditionally financed their student housing with endowments, philanthropy and student fees. Private colleges are less attractive to private developers because they tend to be smaller, so their housing needs are less extensive.

Although proponents of private partnerships point to lower costs for construction and operation, those savings are not necessarily passed on to students. A room at the Heights, for example, costs about \$1,000 more a semester than a room in Montclair State's other dorms.

"These things are often sold as savings, but they don't often result in savings," said Edward P. St. John, an education professor at the University of Michigan and an editor of ["Privatization and Public Universities,"](#) published in 2006.

Montclair State officials point to additional amenities available at the Heights and its mint condition as reasons for the premium price tag. A committee of university officials and employees of Capstone Development Partners, the builder, will determine the cost each year.

Capstone developed the Heights, enlisting the [Provident Resources Group](#), a nonprofit organization, to finance the \$211 million project with tax-exempt bonds issued by the [New Jersey Economic Development Authority](#). Capstone will manage it for the next 40 years or until the bonds are paid off and the title reverts to the university. The university will retain authority over student conduct within.

Montclair State previously financed its capital projects with tax-exempt [municipal bonds](#). But after a decade of ambitious construction projects, the university had a lot of debt. The New Jersey Economic Stimulus Act of 2009 gave it the authority to enter into a partnership with a private firm.

“We needed to provide housing for our students, and we needed to find a way to do it,” said Susan A. Cole, the president of Montclair State.

Private developers have long had an interest in student housing. As student populations surged in the decades after [World War II](#), universities quickly built out their own campuses, and builders responded with inexpensive, bare-bones low-rise and garden apartments.

In the recent real estate boom, luxury apartments sprang up near campuses around the country, enticing students with amenities like gyms and spas. Now, with dorms aging and money tight, universities are inviting private developers to build on the quads.

“It doesn’t matter how large an institution you are,” said William C. Bayless Jr., the chief executive of [American Campus Communities](#), a student housing real estate investment trust. “You should look at the most cost-effective way to develop student housing to save your capital dollars for other projects.”

[Portland State University](#) in Oregon is building a 16-story residence hall in a public-private partnership with American Campus Communities. When the \$90 million mixed-use building, called University Pointe, opens in August, it will be the first privately developed student housing project in the university’s history. American Campus Communities will own and manage University Pointe for up to 85 years before it reverts to the university.

“This is a watershed moment for us,” said Monica Rimai, the vice president for finance and administration at Portland State. “What are the implications for our status as a public institution?”

The long-term impacts for institutions are not yet fully known. Increasingly, private companies are investing their own money in these deals, an option that is attractive to universities that lack capital and want to avoid debt financing altogether. These agreements often include greater control over the properties and lengthy land leases, in which the university leases the land to the private company.

Over the course of a century, the quality of the housing could deteriorate. The shareholders of a REIT may press for greater returns, perhaps leading to cost cuts and rate increases that affect the quality of student life.

“If you’re a school and suddenly you have a private developer come on campus and they mess up and don’t perform, that’s a huge risk for the school,” said Alexander D. Goldfarb, a senior REIT analyst at Sandler O’Neill and Partners.

[Boise State University in Idaho](#) recently called off a [private equity](#) deal with American Campus Communities to build a 900-bed dorm, partly because of worries about signing an 85-year deal.

James Maguire, the university architect at Boise State, said: “The board began to say, ‘Who knows what the university may need to use its land for in that kind of a time frame?’ It limits your options in the future.” Ultimately, the university decided to finance a smaller, 350-bed dorm on its own with municipal bonds.

Montclair State’s problem was that the university, with more than 18,000 undergraduate and graduate students, about 4,300 of whom live on campus, simply could not provide enough housing. A year ago, students lived in triple rooms, student lounges and hotels in nearby Clifton along the busy Route 3 highway. With few affordable rentals in this suburban area, many students commuted.

“We couldn’t tell our students from South Jersey to commute,” Dr. Cole said. “They’re closer to Maryland and Delaware and they could get housing there.”

[The Heights complex](#), perched on a quarry site on Montclair State’s Spanish colonial-style campus, is light and airy with large student lounges, quiet study rooms and a basement clubhouse. Rooms are spacious with private baths. Many have views of the New York skyline.

“A lot of people will consider living on campus because of it,” said Arriel Miles, 21, a senior who lives at the Heights.

Ms. Miles, now a resident assistant, commuted 35 minutes from Rahway her first two years. She said if the Heights had been an option, she might have pressed her mother to let her live on campus sooner.

Now, in what could be one of the largest private campus housing transactions to date, the [University of Kentucky](#) is considering handing over all of its student housing, 5,100 beds, to Education Realty Trust, a REIT. As part of the deal, Education Realty would demolish most of the existing buildings to make way for 9,000 new beds in what amounts to \$500 million in new construction.

“This is their core business,” Angela S. Martin, the treasurer of the University of Kentucky, said of Education Realty Trust. “They can build it cheaper. They can build it faster and they can operate it leaner than we can. This is not the university’s core business.”