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# PRIVATIZING UNIVERSITY HOUSING

By Leonard C. Gilroy, Laura J. Davis, Sarah F. Anzia and Geoffrey F. Segal



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# Privatizing University Housing

By Leonard C. Gilroy, Laura J. Davis, Sarah F. Anzia and Geoffrey F. Segal  
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## Part 1

# Introduction

The idea of going away to college has become inextricably linked to the idea of “dorm life,” or, to keep up with the language of today, “residence hall life.” Reminiscing about college, it is easy to romanticize the camaraderie and late nights of communal residence hall life while forgetting the cramped 11 by 14 foot rooms, the crowded bathrooms, and the week’s leftovers being served in the dining hall for the fourth meal in a row.

While fond memories of college often filter out the unpleasant aspects of residence hall living, university housing administrators cannot turn a blind eye to substandard living conditions of on-campus students. While administrators would like to direct attention to the improvement of living conditions, they must also attend to the realities of unprecedented enrollment, less government funding, aging buildings, greater technological needs, and expanding regulation. To manage these demands, some schools have privatized aspects of their residence halls, taking advantage of increasingly common campus management companies to fulfill their needs. In these cases, privatization has provided a number of benefits to universities and to the students who live in their residence halls, including lower costs, faster construction, and higher quality housing.

Skeptics might question the appropriateness of the broad application of privatization tactics that have, so far, only been used by a fraction of all universities. How can student housing administrators be sure that privatization will have the desired effects?

Despite the newness of residence hall privatization, there is plenty of evidence that it is more effective than the traditional model. Ten years ago, the U.S. military faced many of the same housing challenges. Aging buildings, housing shortages, and high-cost maintenance were frustrating administrators and undermining service member morale. Realizing that housing construction and management is not a core government competency, the U.S. military has since turned to the private sector for remedies. Military housing privatization has proven to be a great success, delivering higher-quality housing to satisfied service members at lower costs to the government and, ultimately, taxpayers. These lessons translate easily to the university setting: residence hall privatization is an excellent approach to addressing university housing woes.

## Part 2

# The Challenge of Providing University Housing

## A. Common Challenges

University housing administrators currently face major dilemmas. They must balance today's record enrollment with a need for flexibility, all amidst rising costs of new construction. To complicate matters, existing housing facilities, most of which are 40 to 50 years old, are in dire need of renovation. Since competing universities use availability and quality of student housing to attract students, housing administrators must adapt their facilities to changing student preferences. Moreover, once housing is built, it can be complicated and costly to manage.

The majority of universities in the United States are now confronting serious housing shortages. The *College Housing 2005 Special Report* revealed that 54 percent of 127 surveyed institutions do not have sufficient residence hall space.<sup>1</sup> This widespread university housing shortage is driven by unprecedented college enrollment: The National Center for Education Statistics predicts a 15 to 20 percent increase in enrollment at degree-granting institutions from 2002 to 2014.<sup>2</sup> As children of the baby boomers reach college age and increasing numbers of immigrants seek post-secondary education, universities struggle to accommodate the large influx of students.<sup>3</sup>

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Beyond the pressure of increased enrollment, there is an ongoing effort on the part of universities to house more students on campus. While most universities require freshmen to live on campus, the mandate is rarely binding for upperclassmen. It is fairly common for upperclassmen to rent off-campus apartments or houses, sometimes leading to friction between student and non-student residents. Non-student residents of college towns frequently complain of the traffic, parties, and litter that come along with having student neighbors. When universities are asked to respond to the

complaints of disgruntled residents, they often try to remedy the problem by luring more students back to on-campus housing. However, strong competition from off-campus properties inhibits success of this strategy, prompting increased university effort to build affordable, high-quality on-campus housing.<sup>4</sup>

The student housing problem is further aggravated by the fact that a large percentage of existing university residence halls are in urgent need of renovation. Many of these residence halls were built in the 1950s, 60s, and 70s with loans authorized by Title IV of the Housing Act of 1950 and Title VII of the Higher Education Act of 1965.<sup>5</sup> In order to prepare for the baby boomer wave, universities rushed to build dorms and paid little attention to aesthetics and comfort. These old cinderblock dorms require major renovation to be suitable for today's students.<sup>6</sup>

The quantity of livable student housing is not the only problem facing housing administrators. Today's students expect a great deal more than the old-fashioned barebones dorms with double-loaded corridors and bathrooms shared by thirty students. "Gone are the days when we expect students to have Spartan living," says Warrick Carter, president of Columbia College in Chicago.<sup>7</sup> Students now expect the modern amenities that they enjoyed in their childhood homes, such as wireless Internet access, cable television, air conditioning, large rooms, security systems, and adaptable furniture.<sup>8</sup> It is not uncommon for students to request even more luxurious accommodations, including kitchens, fitness centers, private bedrooms, and private bathrooms.<sup>9</sup>

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Universities typically find it in their interest to meet these demands. In spite of unprecedented enrollment, universities still compete for students. The vast majority of colleges acknowledge that availability and quality of on-campus housing are important factors for students deciding which institution they will attend. In an attempt to appeal to the changing preferences of students, almost all universities solicit student input when planning for residence hall construction or renovation.<sup>10</sup> Indeed, student housing is increasingly viewed as a customer-driven market.<sup>11</sup>

All of these trends—residence hall shortages, aging student housing facilities, a desire to house more students on campus, and changing student expectations—are visible in the results of the 2003 *Construction and Renovation Survey* conducted by the Association of College and University Housing Officers, International. From the fall of 2001 to the fall of 2003, over 30 percent of responding institutions completed new residence hall construction projects. These new residence halls were built primarily to meet the needs and interests of students and to meet the demand for additional beds. In addition, 53.1 percent of responding chief housing officers explained that they were building more housing to raise the percentage of undergraduates living on campus. Of these brand new residence halls, very few were designed in the traditional dorm style: 31.9 percent

included individual contract apartments (rented by the bed space), 23 percent included apartments (rented by the unit), and 20.4 percent included super suites. Almost all the new facilities featured Internet access and air conditioning.<sup>12</sup> This clearly illustrates a dramatic shift away from traditional dormitory housing.

While newer facilities with more amenities appeal to students, such facilities are costly relative to the dormitories of old. Student housing administrators also face the increased cost of complying with an array of recent government regulations that did not apply in the 1960s. The Americans with Disabilities Act, the Fair Housing Act,<sup>13</sup> fire and safety regulations, and environmental regulations all add to the cost of new construction and renovation.<sup>14</sup> According to the *College Housing 2006 Special Report*, residence hall construction cost per square foot has steadily increased since 1997, when the median cost among residence halls was \$80 per square foot. In 2000, the median cost project was \$100 per square foot, and in 2006, this figure rose to \$173. Student housing is becoming more expensive and more specialized. How can schools finance such costly capital improvements?

If and when colleges do locate the funds for residence hall construction, can they rely on consistent occupancy in the long run? As it turns out, projecting future occupancy is a significant challenge for housing administrators. Long-term fluctuations in student enrollment create occupancy problems of either over-crowding or under-utilized residence halls. The academic year only runs for nine months of the year, and much of residence hall space lies vacant for the remainder. More and more students choose to study abroad at some point during their college experience, a trend that creates additional vacancies. In this sense, residence hall management is challenging and costly, and administrators must always prioritize flexibility in their decision-making.<sup>15</sup>

On a more fundamental level, provision of housing is not a core competency for most universities. The individuals who work in student housing are rarely experts in finance, building design, construction materials, or facility management.<sup>16</sup> The extent and severity of problems that now face university housing administrators, however, demand expert attention.

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## **B. State University Funding Difficulties: Subsidies Are Not the Answer**

The most common funding mechanism for both public and private universities is bond issuance.<sup>17</sup> This traditional financing mechanism, however, is fraught with complication. First of all, debt capacity is often not available for residence hall construction.<sup>18</sup> When debt-service capacity is stretched, campuses must look to other options to realize hopes for new facilities.<sup>19</sup>

When schools do use bond financing to fund large projects, they typically depend on student room and board fees to pay back the bonds.<sup>20</sup> However, the need for additional income that arises from bond indebtedness frequently leads schools to raise student rent for residence halls.<sup>21</sup> Raising student rent often conflicts with housing administrators' need to keep student living costs affordable.

Public universities are the most likely to suffer from such dilemmas. Whereas private universities can commonly depend on donor contributions for projects, two out of three public colleges look to revenue bonds for residence hall funding.<sup>22</sup> Even when debt capacity allows for this mechanism, public universities are typically more reluctant to raise room and board rates to accommodate the spending.

In the absence of a debt-financing option, public universities have historically looked to state government for assistance. However, most states currently face deep budget deficits, which has led to an overall reduction in state allocations for student housing construction and renovation.<sup>23</sup> Georgia has eliminated state funding for residence halls entirely.<sup>24</sup> The state of Iowa describes its university residence systems as “self-supporting operations... [that] do not receive state-appropriated funds for operations or capital improvements.”<sup>25</sup> In the first half of the current decade, public universities relied on state allocations for 34 percent of their total income (compared to 1.5 percent for private four-year colleges),<sup>26</sup> but less than 2 percent of public universities with new residence hall projects identified state appropriations as the primary project funding source.<sup>27</sup> Reprioritization of state budgets has left many public university housing administrators to their own devices for securing capital improvement funds.

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Despite the overall trend of state cutbacks and reduced government funding for residence hall construction, many state universities still depend on public dollars for capital improvement projects. This year, the University of Kansas, one of six universities in the state, is benefiting from three state-funded residence hall projects totaling \$18.6 million.<sup>28</sup> Over-dependence on state funding, however, has created substantial difficulties for universities feeling the brunt of state budget cuts. Representatives from the University of Wisconsin System have complained that cuts to residence hall budgets have negatively impacted the safety and security of students.<sup>29</sup> The University of Oregon is desperate for cash to renovate its residence halls which rank highly on *Princeton Review's* list of “dorms like dungeons.” Among other commitments, mandatory payment into the Oregon University System's consolidated debt pool, used for all state university residence hall debt, inhibits the University of Oregon's progress with needed renovations.<sup>30</sup> While states like Florida and Texas have creatively used state assets to fund university housing capital improvements,<sup>31</sup> most state universities are ill-equipped to handle the housing needs of today's college students.

The inability of public universities to meet the rising demand for high-quality housing does not legitimize government subsidization of residence hall projects. Government subsidization of university housing has several shortcomings. Most importantly, subsidization takes money from taxpayers and businesses in order to pay for student living expenses. Given that government subsidization is linked to lower rates of economic growth, any decision to subsidize student housing should be weighed against accompanying negative economic effects and alternative state investments.

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In addition, government subsidization of university housing is often an inefficient allocation of resources. State appropriations must be managed in accordance with extensive rules governing the procurement and contracting process.<sup>32</sup> Some university officials have indicated that mandatory compliance with such requirements can add two or more years to the construction process.<sup>33</sup> Fortunately, state subsidization is not the only alternative available to public universities struggling to address burgeoning housing problems.

## Part 3

# The Privatization Option

A number of state schools have solved their housing problems by privatizing some of their residence halls.<sup>34</sup> As a general strategy, privatization allows a university to contract with a private company for the provision of services that are not part of its core academic mission. A university typically engages in this kind of partnership with the private sector in order to reduce costs and enhance the delivery of services. This approach has commonly been used by universities for vending operations, garbage and sanitation services, laundry services, and bookstore operations.<sup>35</sup> Instead of relying on direct subsidization for these services, state universities can lower costs and improve service with the help of the private sector's expertise and personnel. Furthermore, privatization transfers employees from the public payroll to the private sector, decreasing the number of public employees dependent on taxpayers for health care and pensions and increasing taxes paid into state coffers.

Universities can select from a variety of privatization plans. In one sense, many universities already have semi-privatized systems: the majority of their upperclass students seek off-campus apartments or houses run by private businesses. These students flock to off-campus housing because it is often less expensive and offers greater autonomy and flexibility. On the supply side, private off-campus housing spreads risk across many individual landlords rather than forcing the university and state to bear the entire risk of fluctuation in enrollment. From this perspective, off-campus housing providers are allies of universities in the area. The University of Minnesota's Minneapolis campus benefited from private housing development in the late 1990s, for example. Faced with rising freshman enrollment and strikingly low vacancy rates in the Twin Cities housing market, the university welcomed private developers who stepped forward to provide new student housing.<sup>36</sup>

However, as mentioned above, high-quality and inexpensive off-campus housing can undermine universities' attempts to encourage more students to live on campus. When this is the case, the threat of attractive off-campus housing generates a need to provide competitive on-campus alternatives. Such was the case at University of Maryland, where there had been a great deal of friction between off-campus students and other residents. In hopes of alleviating this conflict, the university built new, more attractive on-campus housing.<sup>37</sup>

In light of these issues, some universities have turned to long-term land lease arrangements with private development companies for construction and management of on-campus residence halls. In this framework, a university leases land that it owns to a for-profit or non-profit corporation for

a period of 20 to 40 years. The ground lease includes specific rules governing land use as well as construction, operation, and maintenance requirements for student housing on the property. The company typically owns the land for the determined period and collects student rent payments. Usually the ground lessee pays the university net revenues once operating expenses, debt service, and management fees are paid.<sup>38</sup>

More and more companies are making it their exclusive business to build and manage housing for university students. At the same time, more colleges, particularly in the South, have adopted privatization of on-campus student housing.<sup>39</sup> The University of Louisiana-Monroe (ULM) recently entered into an agreement with JPI to build its Village on the Bayou. JPI will provide renovations, financing, and management for the buildings. After 30 years, ULM will either buy the buildings from JPI, or JPI will construct new ones for ULM.<sup>40</sup> The University of Alabama-Birmingham entered into a similar partnership with Education Realty Trust, Inc. to build, manage, and provide development consulting for their residence halls.<sup>41</sup>



Multiple advantages accrue to universities that open their housing administration to private organizations with relevant expertise. At a fundamental level, privatization allows universities to focus their attention on the academic pursuits that are critical to the university mission. Keeping up with constantly changing student preferences and university capacity needs demands a great deal of attention from university housing departments. Privatization of housing ensures that university resources are devoted more appropriately to academic programs as well as to the retention of faculty, staff, and students.<sup>42</sup>

The teams of professionals that work with schools also bring greater expertise to the construction and management of student housing, thereby improving services for students.<sup>43</sup> They are more in touch with both student preferences and current trends and bring specialized knowledge to the design. For example, Capstone Development Corporation, a company devoted exclusively to the provision of student housing, always makes sure that trash chutes in corridors are big enough to accommodate a standard pizza delivery box. The company's interior designers know from past projects which brand and style of mattress works best for student living. While university housing administrators have been quick to add the costly luxury of two-sink counters separate from toilet and shower, Capstone has received feedback that students prefer larger countertops with one sink. As Alton Irwin, the executive vice president for Marketing and Business Development, explained, "It is the little things...It really isn't rocket science, but we approach it by what we hear every day in the trenches."<sup>44</sup> Today's residence halls are increasingly specialized, with "ecodorms" for environmentally conscious students and living spaces that boast Starbucks in the lobby.<sup>45</sup> In a field that offers an increasing number of choices, specialized private developers with extensive market research capabilities are in a better position to assess the university housing market and make the best decisions in response.

Private companies also bring time efficiencies to housing construction. The developer contracts with the lenders, lawyers, architects, engineers, and contractors, sidestepping the university's procurement process. Since they do not have to negotiate the extensive bureaucratic rules governing the capital projects of state universities, they can construct the buildings more quickly. While such speediness is great for students, it also allows universities to start collecting student rent payments earlier.<sup>46</sup>

Private residence hall owners have also demonstrated efficiency in housing maintenance. GMH Communities Trust and College Park Communities, for example, feature a speedy online work order system. Residents can submit work orders online directly to maintenance supervisors, who dispatch someone within 24 hours to fix the problem.<sup>47</sup> Speedy maintenance response is yet another selling point that universities can offer to prospective and current students who are considering other universities or off-campus alternatives.



The private sector brings financial advantages to university housing along with all these benefits. Working with a private company can allow a university to preserve its credit rating and debt capacity by keeping some of the project's debt off the university's accounting records.<sup>48</sup> This perk partially motivated the decision by University of Maryland in College Park to contract with Ambling Companies Inc. and Capstone Development Corporation for two new housing complexes. Even though the university's debt-service capacity was stretched, it was able to enter a partnership with the private developers to address its housing needs.<sup>49</sup> Not only does privatization relieve the financial burden of the university, but it eliminates the need for state subsidization of residence halls, thereby relieving the financial burden of state taxpayers.

Critics of such privatization proposals assert that private management of residence halls will eliminate the education component so often incorporated into university housing. This is a valid concern since schools are ultimately accountable for on-campus housing and any issues that arise within them. However, universities can address these issues with relative ease. The University of Maryland in College Park took this into account when they drew up contracts with Capstone and Ambling. While the developers manage most aspects of the residence halls, the university itself selects the directors of residence hall life. This strategy enables a university to retain control over its live-learn communities.<sup>50</sup>

If, for some reason, university officials remain skeptical of private companies' ability to successfully manage student housing, they can consider another form of privatization. A number of campuses have turned to private developers for construction but choose to retain full control of operations and programs once the facility is built. This type of partnership still lets the university take advantage of private sector construction speed, cost-savings, and sophisticated financial strategies.<sup>51</sup>

Many universities have used this strategy, tapping into private developers exclusively for oversight of construction and finance. The \$75 million, 290,000-square-foot National High Magnetic Field Laboratory at Florida State University in Tallahassee is an example of a competitive, networking-oriented procurement strategy. The university negotiated a guaranteed maximum price contract for building the facility, creating incentives for the contractor based on cost savings, quality, technical performance, and time savings.<sup>52</sup> The project team brought the architectural and engineering plans, originally \$8 million over budget, back into line. They also brought a 50-megawatt electric substation to serve the facility online. In addition, they coordinated record numbers of concrete trucks to simultaneously pour a mat of concrete three feet deep and free of seams and cracks, providing the foundation for a crucial part of the laboratory. The facility was built within budget in the record time of 18 months.<sup>53</sup> While management of the facility reverted to the university after it was completed, the private developer gave the university a high quality facility in less time and at lower cost than the original plan had offered. Universities can reap the same benefits with private development of student housing facilities.

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Another concern raised by critics of privatization is that new housing facilities that include more amenities and space per student involve higher rent prices. If universities, particularly state institutions, strive to keep student living costs low, then doesn't this result of residence hall privatization conflict with university mission? Those who adopt this argument do not recognize the long-term potential of the market in student housing provision. While it is true that, until now, private developers have primarily been called to university campuses to provide upscale student residence halls, there is still a demand for lower-cost, traditional-style housing. From 2001 to 2003, most renovations of existing student housing facilities included traditional rooms, in the finished product.<sup>54</sup> Private developers are equally equipped to oversee such renovations ensuring that lower-cost housing options are available to students. As Nick Zaferes with GMH Communities Trust states, "There is still a need for a dorm-style product. That's for our younger residents, our freshman and sophomores... That's about 10 percent of what we do."<sup>55</sup> On a separate note, despite higher room-and-board rates, universities claim that the newest student housing facilities are typically the first booked, demonstrating that private student housing companies are satisfying a substantial market need.<sup>56</sup>

It must be acknowledged that privatized university housing is not a panacea. For any student housing privatization formula, it is imperative that the university practice sound techniques in contracting for building, financing, and management services. It must solicit competitive bids and have clear plans for construction, real estate operations, financial reporting, facilities maintenance, and management with incentive programs for quality assurance. In addition, it should incorporate methods for gathering student feedback.<sup>57</sup>

Yet privatization can solve many of the problems that have faced and continue to face university housing administrators. For such a powerful tool, privatization is remarkably underutilized. A 2005 survey of 73 public universities revealed that less than 14 percent of new residence halls were to be funded with private developer dollars. Only 16.6 percent of new residence halls will be owned by private developers or foundations, and 15.3 percent will be privately managed.<sup>58</sup> Just as apartment-style living spaces and updated buildings are replacing some of the 11 by 14 foot dorm rooms and 1960s residence halls, it is time to replace old notions of government-subsidized construction and management of university housing. The innovation and efficiency inspired by privatization benefits students, universities, and the states themselves.



## Part 4

# The Military Housing Privatization Model

Those who are skeptical about the advantages of student housing privatization can look to the success of U.S. military housing as an interesting parallel. Similar to the housing situation at many state universities, military housing had fallen deep into disrepair by the mid-1990s, having taken a back seat to other defense spending priorities for many years. This resulted in dilapidated, decades-old housing, high maintenance costs, and low service member morale. In addition, there were too few quality housing units on base, and the quality units that existed off base were unaffordable for many military families. At the time, the Department of Defense (DoD) estimated that 60 percent of military housing units were inadequate and that it would take 30 years<sup>59</sup> and at least \$16 billion to refurbish them all using the traditional military construction approach.<sup>60</sup> These problems mirror the current university challenges of housing shortages, aging dormitories, state budget cuts, off-campus competition, and changing student preferences.

Just as university officials recognize that quality university housing contributes to student success, the U.S. military recognized the importance of the morale and quality of life of military personnel. For this reason, military living conditions have been made a higher priority in the past decade. Realizing that housing construction and management is not a core government competency, the military turned to the private sector for answers. Congress established the Military Housing Privatization Initiative (MHPI) under the National Defense Authorization Act for Fiscal Year 1996 (Public Law 104-106 110, Stat 186, Section 2801), and the Bush administration later designated military housing privatization a President's Management Agenda Initiative.<sup>61</sup>

The MHPI was created as a tool to help improve the quality of life for active duty military personnel and their families by improving the quality of housing, while at the same time reducing the total housing costs to DoD. The program harnesses the expertise and innovation of the private sector to produce housing more quickly, cheaply and efficiently than the traditional military construction process would normally allow. Under the MHPI, the different branches of the Armed Forces use a competitive bidding process to select private developers that will own, operate, and maintain military housing under 50-year leases. DoD facilitates this process by making a variety of financial tools available to the private sector, including direct loans, loan guarantees, equity investments, and conveyance or leasing of land and/or housing.<sup>62</sup>

For the military, privatization has proven to be a great success, delivering higher-quality housing to satisfied service members at lower costs to the government and, ultimately, taxpayers. In fact, the military housing privatization program has been so successful that the government has continually expanded the program, finding it to be a crucial tool to repair and replace inadequate military housing. The number of privatized housing units rose from 5,894 at the end of 2000 to 87,512 in 2005. Current plans include privatization of a total of over 185,000 units—84 percent of all U.S. on-base housing—by the end of 2007.<sup>63</sup> As of February 2005, DoD had awarded 43 military housing privatization projects,<sup>64</sup> and more come each month.

In light of the MHPI's success and expansion, Congress removed a sunset clause that would have caused the program to expire in 2012, thereby making the program permanent. It also removed a budget authority cap of \$850 million in the Ronald W. Reagan National Defense Authorization Act for 2005 (Public Law 108-375 107, Section 2805). Despite the striking similarities between military and university housing challenges, however, university housing privatization has not garnered such widespread support. The success of military housing privatization begs the question: Why haven't university officials adopted a similar strategy? A closer examination of the military model illuminates the possibilities for university housing.

### A. Military Housing Privatization in Action

MHPI is governed by DoD policy guidelines, though each service branch runs its own privatization program. First, the service branch conducts an initial evaluation and feasibility study. After that, the Office of the Secretary of Defense approves the project concept, and Congress is notified of the solicitation proposal. At that point, the service may seek out private partners to address its housing needs. After issuing a request for proposal, the service organizes an industry forum and local meetings to introduce the project and answer developers' and financiers' questions.

The developer selection process varies among the services, illustrating the different possible processes that university housing administrators could adopt. The Air Force and the Navy select a developer through a two-step process. They base the first stage on the developers' qualifications, and they judge the second stage according to specific project development and management plans. The Army makes its decision solely on the developers' qualifications and works with the selected developer to come up with a Community Development and Management Plan (CDMP). If the Army is satisfied with the CDMP and the working relationship with the developer, it will give the developer the green light to proceed with the project.

The military model also bears lessons for how to incorporate the feedback of students, parents, the university, and neighborhood residents into the residence hall planning process. After a military branch awards a contract, it typically holds a series of stakeholder meetings and community forums to solicit comments from enlisted personnel, their spouses, members of the local community, and representatives from local government. Frequent "management review committee" meetings

between the developer and the service ensure that the project stays on track and that any concerns or problems that arise may be addressed quickly and to the satisfaction of all parties.

Typically, the service and the developer form a limited partnership to develop the project. The developer receives a 50-year ground lease and is responsible for asset, property, and maintenance management. The private developer assumes virtually all of the financial burden of developing the project. Financing sources include developer and government equity investments and private-sector loans. This scheme is equally feasible in the university housing market, as has already been demonstrated by a few universities that have entered 20-to-40-year land lease agreements.

Just as university housing calls for special rent arrangements, the military has adopted a system that maintains affordable rent for personnel while accommodating unpredictable lease termination. Rents are set equal to the Basic Allowance for Housing (BAH), which is a housing stipend issued by the DoD to military personnel living off base (and now provided to those living in on-base MHPI projects as well). BAH is determined based on a service member's geographical location, pay scale, and whether he or she has dependents. In addition, the developer is required to provide a standard renter's insurance package. Since service members may be forced to transfer or deploy on short notice, they are allowed more leeway in breaking their leases without penalty than a typical renter in the private sector.

Military housing developers are also offered some protection for their investments. If the military base on which their project is located were to close, they would continue to own and manage the leased property and housing development and would be able to rent out their units on the private market. In addition, if occupancy rates fall below a certain threshold, the developer can rent to others at market rates. Private developers of student housing could expect similar protection from the natural fluctuations in student housing occupancy.

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[These assessment practices demonstrate that privatization of university housing does not require that the university relinquish final control over its residence halls.](#)

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In the military case, government's oversight does not end with the completion of the project. Privatization projects are continually evaluated with the use of Program Evaluation Plan (PEP) reports. DoD collects PEP information from the services and conducts semi-annual reviews. The Department also holds quarterly meetings with the services to share best practices, lessons learned, areas of weakness, and other ideas regarding the housing privatization programs. These assessment practices demonstrate that privatization of university housing does not require that the university relinquish final control over its residence halls. Rather, the university should be encouraged to conduct regular assessments of how well the private housing provider is meeting university needs.

## B. Benefits of Military Housing Privatization

Experience has shown that privatization of military housing carries numerous benefits. The cost savings, speed of construction, higher quality facilities, and higher service member morale that privatization has brought to the U.S. military translate directly into a university housing context. By examining the nature of the benefits that have accrued to military housing as a result of privatization, it is possible to understand how similar partnerships would alleviate most universities' housing woes.

### 1. Cost Savings

One of the most palpable benefits of military housing privatization is that private project development is significantly cheaper than government housing construction and management. According to the DoD, it would have cost \$16 billion to make the necessary housing improvements based on the traditional military construction (MILCON) program.<sup>65</sup> Privatization is expected to cost only \$14 billion, which represents a savings of \$2 billion.<sup>66</sup> Indeed, even after factoring in BAH (rent) payments to military personnel who previously lived on base and did not draw allowances, DoD concluded in 2004 that private development is much cheaper:

*Life cycle analyses have shown privatization to be less costly than military construction for all projects so far. Our most recent data reflects for the 20 projects we've analyzed thus far, a life cycle advantage for privatization of about 10-15 percent.*<sup>67</sup>

Under the MHPI, the private developer pays the vast majority of the development costs. DoD policy requires that a privatized housing project must generate at least \$3 of housing development (as estimated by MILCON) for every \$1 appropriated by Congress to support the project, or a "leverage ratio" of 3 to 1.<sup>68</sup> For the 43 projects awarded as of February 2005, government construction costs totaled \$767 million for developments that would have cost \$11 billion under the traditional MILCON approach.<sup>69</sup> This represents a leverage ratio of over 14 to 1, far exceeding program guidelines and expectations.

Today's universities confront enormous pressure to provide more and better student housing while maintaining affordable room and board rates. In addition, ubiquitous state budget cuts have diminished state universities' hopes for government funds to address this dilemma. What resources are available to balance such conflicting needs? The military housing model contains an important lesson for minimizing cost to both universities and students. By calling on the private sector, universities could build residence halls for less money and shift the bulk of the financial burden to private developers.

### 2. Speed in Addressing the Shortage of Adequate Housing

Not only are private-sector housing developers cheaper than government developers, but they are also much faster. Using MILCON, DoD estimates it would have taken another 20 years to fix all

of the military's substandard housing.<sup>70</sup> Assuming DoD's budget requests are fulfilled, the Department anticipates eliminating all inadequate military housing units in the United States by the end of FY 2007—and all inadequate units overseas by the end of FY 2009—by allowing the private sector to manage the process.<sup>71</sup>

Likewise, current university housing inadequacies demand immediate attention. The funding process for large public universities is unacceptably slow for serving this purpose.<sup>72</sup> Rather than wade through overly political state and institutional processes, these universities could tap into the private sector to build and renovate residence halls quickly, a method that has been effective in the analogous military housing model.

### *3. Better Housing Quality and Property Management*

According to DoD, in January 2001 approximately 180,000 of the Department's 300,000 family housing units worldwide were deemed "inadequate," requiring significant renovation or repair.<sup>73</sup> In 2005, on-base housing had an average age of 33 years, and 25 percent of it was over 40 years old.<sup>74</sup> Primarily because of the military housing privatization program, however, DoD expects to eliminate all inadequate units by the end of FY 2007.<sup>75</sup> This represents a dramatic improvement from the 60 percent inadequacy rate of just a few years ago.<sup>76</sup> The housing privatization program is now offering military families brand new (or newly renovated) homes that are larger and contain more modern features.

Private-sector companies have a strong interest in providing and maintaining high-quality housing for their military customers. If pride in developing and sustaining quality communities is not enough, private companies have the added incentive of the profit motive: they must offer attractive living spaces to keep up occupancy rates and profits, or else lose out to private off-base housing competitors. Under the bureaucratic government system, there is no such incentive, and housing quality is determined by arbitrary political priorities and (typically insufficient) budget allocations—with disastrous results.

Quality improvements are not limited to the mere construction of privatized housing units, however. Privatized military housing also offers better property management and maintenance. For example, private management companies reportedly fix maintenance problems much more quickly.<sup>77</sup> According to DoD, "many tenants are initially impressed by improved response to trouble calls even prior to housing improvements being completed."<sup>78</sup> In addition, "awarded projects show vastly improved operation and maintenance, better customer service, and greater Service member satisfaction, as measured in the customer surveys used to support the President's Management Agenda metric for tenant satisfaction."<sup>79</sup>

Chris Crennan, Vice-President of Lincoln Military Housing, Mid-Atlantic Region, whose company is taking on a housing privatization project at NAS Patuxent River, proudly reported his company's maintenance track record: It addresses 97 percent of reported problems within 24 hours and meets emergency needs within 30 minutes.<sup>80</sup> At Fort Meade, the base handed over a maintenance

backlog of 4,000 repairs to the new private management company, which fixed all problems within eight months.<sup>81</sup>

Not only is private-sector property management beneficial because it is more efficient, but, as more and more military and DoD personnel have realized, it also removes the burden of management from the military altogether. The management efficiency gains from housing privatization can greatly improve military operations. Privatization allows the military to redistribute money saved to more productive uses, and it allows the services to achieve efficiency elsewhere by freeing up personnel for core military duties. Thus, the use of private housing developers maximizes both financial and human resources.

Universities could reap enormous benefits from the higher quality housing and management that the private sector offers. Just as the military has substantially reduced the number of inadequate housing units since it adopted the private model, universities could expect a rapid reduction in dilapidated dorm rooms and an increase in modern student housing facilities. Schools could mitigate future maintenance problems by relying on proven private sector response times. Nick Zaferes of GMH Communities Trust and College Park Management, a company that builds and manages both student housing and military housing, says, "I was involved at the inception of military housing and have been involved in the design. Our [student housing] work order systems are very similar and our property management systems are similar."<sup>82</sup> Yet student housing administrators have not embraced privatization to the degree that the U.S. military has, demonstrating a passivity that has left promising student housing solutions unexplored.

Few would argue against the notion that universities should dedicate the bulk of their resources to the fulfillment of their academic missions. Student housing provision adds very little to that mission and yet consumes a disproportionately large amount of resources. Private provision of military housing has freed up resources for increased investment in core military functions. Similarly, private provision of university housing has the desirable potential to free up resources for the enhancement of core academic missions.

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#### *4. Higher Service Member Morale*

In 1995, just before the establishment of the MHPI, a Defense Science Board report concluded that military family housing "made daily activities a trial and lowered morale."<sup>83</sup> More recently, DoD echoed this sentiment, asserting that the poor housing situation that developed over the decades "has led to a decline in readiness and morale among Service members."<sup>84</sup> By reversing this trend,

MHPI represents an effort not only to save the government money and improve the quality of life of the United States' military personnel but also an effort to improve the demeanor and quality of the military overall. Indeed, housing quality has proven to be an important tool for service member recruitment and retention. DoD reports that service retention rates at bases with high-quality housing are about 15 percent higher than at bases with lower-quality housing.<sup>85</sup>

Privatized housing communities provide plenty of amenities and social activities to improve the quality of life for service members and their families. Amenities may include adequate parking, high-speed Internet capability, swimming pools, community centers, tot lots, meeting rooms, athletic fields and facilities, fitness centers, jogging paths, and bike paths. In addition, private property managers organize social activities such as family events, barbeques, ice cream socials, town hall meetings, date nights, military spouse activities, children's programs, and educational programs.

Quality of housing is equally important to student morale and continues to be a heavily weighted decision-making criterion for prospective students. University housing officials recognize this yet are forced to decide among an increasing number of amenities for inclusion in new residence halls. Should they incorporate a fitness center, wireless Internet, a classroom, a pool, or a computer lab into the plans? What amenity choices and style will contribute the most to overall student satisfaction? Private student housing professionals are driven to meet the needs of their customers—universities and students—and are therefore the best equipped to maximize student satisfaction.

## Part 5

# Conclusion

The days of dingy dorm rooms and cinderblock structures are history. College students who expect more from their living spaces are forcing universities to come up with creative approaches to resolving housing shortages, renovating dilapidated dorms, and providing appealing on-campus options to compete with off-campus alternatives. Some universities have called upon the expertise of private housing providers to develop comprehensive solutions to these problems. In return, they have reaped the rewards of lower cost, higher-quality student housing. Yet despite these success stories, privatization of student housing remains underutilized.

Those who doubt the promise of privatized university housing can look to the U.S. military housing model for reassurance. The MHPI has proven to be a remarkable success since its creation in 1996. In less than a decade, the military services have made impressive strides in utilizing private housing developers to replace inadequate on-base housing. The private sector has shown that it can build, renovate, operate, and maintain higher-quality housing communities at less cost than traditional military construction methods. Privatization has resulted in greater efficiency for the services and greater quality of life and morale for service members and their families.

Universities that face the challenge of providing new or modernized housing, especially those historically dependent on state appropriations for construction and renovation, can learn a great deal from the success of MHPI. Specifically, they can use MHPI as a model for harnessing private sector efficiency and innovation to offer students higher-quality housing more quickly and at lower cost. By taking advantage of private sector expertise in delivering housing services, universities will be free to focus more of their attention on providing high-quality education to their students.



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