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Non-Traditional Partnerships in Student Housing:

Why and how institutions of higher education seek partners to own, deliver and operate

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On many college and university campuses, providing housing for students is integral to the institutions' primary mission of educating them. Student housing has grown from facilities necessary for warehousing students to residential living-learning communities designed to foster intellectual and emotional growth and to build community on campus. Further, creating and managing successful, compelling campus housing communities has become increasingly important in supporting the enrollment management and faculty recruitment objectives of institutions of higher education (IHEs).

Concurrently with the emergence of student housing as an important corollary to academic goals and as a valuable recruitment tool, it is also viewed increasingly as an opportunity for partnership with third parties for its financing, delivery and management. Such non-traditional partnerships recognize that while successful student housing plays an important role on campus, it is not always one of the institution's core competencies; rather, its predictable revenue stream can be leveraged to provide mutually beneficial outcomes to the institution and its partner(s).

While loosely structured affiliation and master-lease agreements between higher education institutions and third-party housing providers have existed for some time, approximately over the past 15 years a pronounced shift has occurred in the level of sophistication of these arrangements. IHEs view even the least structured affiliation agreements through the prisms of existing inventory, the surrounding market and the institution's own credit and balance sheet. Increasingly, partnerships formed prior to construction can help to ensure the desired financial and institutional impact, for both the IHE and the third-party. Therefore, it is wise for any student housing provider or IHE to consider such a partnership early in the process of planning for new housing. When considering potential benefits – both financial and operational – of such an arrangement, it is important to ensure that the sometimes competing motivations of the IHE and the third-party can be aligned.

As the sophistication of these partnerships has grown, a variety of non-traditional arrangements have emerged. This paper principally seeks to examine the following questions:

- Why might an IHE consider non-traditional partnerships?
- What are the primary characteristics of a non-traditional partnership?

Motivating Factors for Institutions of Higher Education

Initially, student housing partnerships were motivated by the goal of addressing rapidly expanding student enrollment. If a school could not meet its obligation or desire to house students, it would enter into a partnership with a third party to do so. These arrangements were typically in the form of master-lease agreements or referral arrangements under which the school would direct students to the property in question – often after its own housing was fully occupied. Of course, as these same schools saw the need to address housing for an expanding student population, they also needed to dedicate significant capital and debt to addressing non-revenue generating facilities and operations such as classrooms, libraries, research labs, faculty offices and recreational facilities. Therefore, allowing third parties to invest their own capital in student housing became an attractive way for schools to address the dual needs of expanding enrollment and upgrading their other facilities, while also mitigating some portion of the risk to the IHE in such an endeavor.

Today, with hundreds of non-traditional partnerships having been executed successfully, the primary benefits such partnerships can offer IHEs fall into a handful of categories:

1. **To address an urgent need,** including higher-than-expected student enrollment, insufficient on-campus housing occupancy or other special circumstances (e.g., late delivery of new/renovated housing).

2. **To expedite the development process,** particularly at public schools where state, university-system and internal requirements (procurement, standards and specifications) can result in a delivery process longer than that of a third-party developer and with significantly higher hard and soft project costs.

3. **To gain experience and expertise,** particularly for IHEs that have no existing student housing or have not recently built new housing and, therefore, could gain from the knowledge base of a third party who has delivered and/or operated student housing in the recent past. Because of the variety of partnership structures available, institutions can tailor them to their needs. For example, a school with more experience in operations and less in delivery may choose to focus on that need.

4. **To reduce risk,** which is particularly attractive to schools with no track record of student housing on their campuses, or no track record with the specific population contemplated to be housed in the new facility (e.g., providing graduate student housing).

5. **To preserve debt capacity,** such that other capital priorities can be accomplished.

6. **To obtain favorable balance sheet and credit treatment,** although notably, a formal partnership will rarely be entirely off-credit and off-balance sheet for the IHE.

Non-traditional partnerships generally have three distinct functions: ownership, delivery and operations. While there are relatively few "hard and fast" rules to which party may own, deliver or operate new student housing facilities, the motivating factors described above provide some insight. For example, if an IHE is motivated to partner in order to expedite delivery, a third party may be sought to deliver the project. Likewise, if an IHE were interested in preserving debt capacity, a third party may be sought to own the project.

Characteristics of Non-Traditional Student Housing Partnerships

While there are numerous iterations of non-traditional student housing partnerships, the continuum of likely opportunities falls loosely within three models:

1. **Referral:** An IHE agrees to direct students to the third-party partner's property in exchange for concessions such as discounted rent, participation in mediation prior to evicting student tenants and/or payment of a nominal fee. Some of these agreements may result in the developer's property operating more like on-campus housing, such as more student-friendly conflict resolution policies or renting by the bed rather than by the unit.

2. **Affiliation:** A more formal arrangement in which the IHE directs students to the third-party partner's property as if it were part of its own inventory and has some control of operations – typically related to student life (resident advisors, residential policies, etc.). Sometimes, the property may be on land leased to the third-party by the institution and/or the institution may offer some guarantees.

3. **Structured:** A not-for-profit entity (existing or new) issues tax-exempt debt to finance the project and its board, a majority of which represents neither the IHE nor the developer, controls all facets of delivery and operations. Sometimes, the property may be on land leased to the not-for-profit by the institution and/or the institution may offer some guarantees.

Generally, these models result in the following ownership, delivery and operations responsibilities:

Type	Ownership	Delivery	Operations	IHE Participation
Referral	Developer	Developer	Developer	Low
Affiliation	Developer	Developer	Varies	Low to Med
Structured	Foundation	Developer / CM	Varies	Med to High

The model which best fits the partnership is driven by the level of risk and control each party wishes to assume. Avoiding some of the risk typically requires ceding some of the control. As shown, the referral model requires the developer to be responsible for all aspects of financing, delivering and operating the project. The developer's levels of risk and control are high in that scenario, while the IHE's are little to none. Nonetheless, while a school can seek partners to deliver and operate housing, it cannot privatize its relationship with students. And because students and parents may find it difficult to differentiate between institution-owned housing and third-party-owned affiliated housing, it is important for IHEs to remember that referral and affiliation agreements still carry some degree of risk.

In the affiliation model, there are more options to transfer some risk between the institution and its partner(s). For example, the IHE might provide security, management and/or infrastructure (usually technology) services at minimal or no cost in return for greater control of operations. Of course, the IHE's willingness to accept some risk and increase its resultant level of participation is based entirely on its motivation to seek a partnership. An affiliation could be as loosely structured as a requirement to adhere to certain residential policies, or as strongly structured as a master-lease agreement for the IHE to control and operate the project or portions of the project. In some cases, the school itself may be contracted to manage some or all of the operations.

Finally, the structured model represents a complete transfer of risk to a not-for-profit foundation, resulting in a ceding of control to the foundation's independent board, on which the developer and IHE could sit and retain some limited veto authority. The structured model also limits financial return solely to the foundation and its not-for-profit beneficiaries – typically the IHE.

While the developer has responsibility for project delivery in each model, the IHE may share some decision-making authority. The IHE may offer a partnership only for projects built to its specifications, including materials, finishes, building components, tele/data, labor requirements (e.g., union and/or prevailing wage laws), LEED standards, floor plans, program space, and other design and construction criteria. In any event, the IHE may require its review and approval of these specifications before agreeing to any partnership.

Further, in evaluating a prospective partnership it is also important for both the IHE and the third-party provider to understand the impact of the proposal to the institution. This impact is directly related to the level of participation of the IHE in the partnership. Depending on motivating factors and the partnership model executed, IHE participation could comprise control of and responsibility for management duties and in-kind services, potentially including marketing, leasing, room assignment, security, maintenance, residence life or billing/collection.

The IHE may also consider providing some guarantees such as the assumption of debt repayment, rental collection risk, delivery risk, construction over-runs and/or first-year occupancy, in return for greater control.

The degree to which IHE participation through management duties, in-kind services and guarantees impacts its risk is generally described as follows:

If IHE participation is:	High	Medium	Low
Cost of capital:	Low	Med to High	High
Student rates:	Low to Med	Medium	High
On-credit?	Yes	Partially	Unlikely
On-balance sheet?	Likely	Unlikely	No
Return to IHE:	High	Medium	Low
Control by IHE:	High	Medium	Low

Typically, an IHE will weigh the credit and balance sheet impact of its participation along with its motivating factors in order to determine the most desirable partnership. Ultimately the IHE must decide on the model that provides it with the optimum blend of control, long-term cash flows, credit impact and ability to achieve institutional goals.

About the Authors

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Founded in 1999, Scion consists of a unique combination of seasoned experts from the fields of higher education administration, market and corporate real estate, and property management, offering a level of financial and real estate sophistication not previously readily available from consultants to not-for-profit entities. Concentrating particularly on campuses with challenges to new or existing student housing – including high barriers to entry such as urban markets, faculty/staff housing, housing for students with dependents and schools creating housing for the first time – Scion combines state-of-the-art real estate analysis and modeling with understanding and sensitivity to the unique nature, mission and special considerations of schools and other not-for-profit institutions.

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