

**A Capital Investment Free Student Housing Alternative:
Leveraging Community Resources**

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Executive Summary

It is becoming increasingly difficult to stretch college and university resources to meet the plethora of capital and programmatic needs in a competitive market. To help meet one of these challenges - providing modern student housing facilities to its students - Valparaiso University recently established a practice of partnering with local private apartment owners to lease two and three bedroom units for undergraduate student housing. This partnership has allowed the University the flexibility to replace aging apartment-type facilities without incurring additional debt. The practice has helped the University to continue to support its strategic plan of maintaining a primarily residential campus during a period of fluctuating enrollment. It has also provided administrators and staff the opportunity to thoroughly assess student needs, future demographics and other alternatives before locking into investments and commitments for an extended period of time.

The development of this somewhat unique partnership has proven beneficial to Valparaiso University. While the practice met the University's initial short-term objectives, it can be modified to fit both short-term and long-term objectives in a variety of situations. Basic design and implementation aspects of this practice are being shared so that interested institutions might benefit from this type of arrangement in the future.

Introduction to Valparaiso University

Mission Statement:

Valparaiso University, a community of learning dedicated to excellence and grounded in the Lutheran tradition of scholarship, freedom, and faith, prepares students to lead and serve in both church and society.

Valparaiso University (“Valpo”) is a private, small comprehensive/liberal arts, Lutheran-affiliated institution located in a small, suburban community 50 miles from Chicago and 15 miles south of Lake Michigan in northwest Indiana. Valpo has been consistently recognized by national publications and organizations for quality programs that integrate the best of the liberal arts with professional preparation, combining theory and practice. The University enrolls approximately 4,000 students from most states and more than 40 countries. Founded in 1859, more than 70 fields of study in five colleges (Arts and Sciences, Business Administration, Engineering, Nursing and Christ College -an honors college), as well as the Graduate Division and School of Law are offered. The undergraduate faculty-student ratio is 13:1 with a typical class size of 22 students.

Valpo’s campus is situated on 320 acres with 60 academic and residential buildings. A residential campus with a housing capacity for approximately 2,000 students, Valpo maintains a housing policy that requires freshmen, sophomores, and juniors to reside in University provided facilities. This policy enhances Valpo’s current strategic plan that includes a stated commitment to provide an enriching student experience by maintaining the primarily residential character of the campus.

Statement of Problem

For many years Valparaiso University's undergraduate student housing accommodations have consisted primarily of traditional residence halls for underclassmen, supplemented with some apartment-style units that are reserved for upperclassmen. In the fall semester of the 2003-2004 academic year Valpo enrolled one of the largest incoming classes in recent history, pushing demand for student housing to capacity. To add to the capacity dilemma, the University razed a 30-bed apartment complex that had long exceeded its useful life, and had further plans to raze a second complex the following year. Although they had seen better days, these apartment units were often the first choice of upper class students during the room selection process due to the relative privacy they offered.

Administrators wanted to continue to maintain Valpo's residential character and recognized the need to replace the popular apartment style accommodations, but did not want to incur significant long term debt without first conducting a thorough analysis of available alternatives. While recent capital campaigns had successfully raised funds for various academic and sports facilities, it has been a challenge to identify donors who are interested in funding a program that many view as a self-supporting auxiliary operation. In addition, the University's borrowing capacity for such a project was limited given the downturn in U. S. equity markets and the subsequent affect on endowment valuations. Finally, Valpo was already in the midst of planning for several other capital and programmatic initiatives that were stretching already tight resources - including land resources. Although the University owns over 300 acres, the planned capital projects and the design of the Campus Master Plan left few options for placement of new student housing facilities without incurring significant infrastructure improvements to support new facilities.

Design

Given these challenges, Valparaiso University identified a need to add undergraduate student housing without incurring an expensive, long term commitment. Fortunately, administrators did not have to look far for a solution. As the U. S. economics of this time period played out, interest rates fell and home ownership increased, resulting in higher vacancy rates for rental units of all types – including apartment units. It quickly became apparent that an arrangement with a local apartment complex could be mutually beneficial to all. After identifying a private apartment complex that was in close proximity to campus whose owner was interested in pursuing such a relationship (and after working through a myriad of issues) Valpo entered into a short-term agreement to lease two and three bedroom apartments. These units provided 64 beds to undergraduate students as campus housing during the 2004-2005 academic year; in the second year of the agreement, 16 more beds were added.

Staff members from both the Finance and Student Affairs Offices worked together with University counsel to identify potential problematic areas and to work through lease agreements. Details regarding payment rates and terms, standard rules, technology requirements, utility payments, student affairs support/programs, transportation, meal plan requirements, furniture, insurance and safety issues were all addressed. In the end, this new option proved to be attractive to the students for a variety of reasons and these units are now the first to be chosen during the room selection process.

The program has been deemed successful for Valparaiso University in terms of meeting student housing challenges without incurring significant expense. The phasing process of increasing the

number of beds during the second year of the agreement allowed staff to test the concept and confirm the students' level of interest. While the original partnership agreement met an initial need for undergraduate housing, future partnerships are now being considered for graduate and law students. This practice may also be implemented in the future to provide additional housing should the University temporarily close residence halls for refurbishing.

Recently, a Request for Information (RFI) was issued to additional apartment complex owners within a short distance of campus. The purpose of the RFI was to determine if other parties would be interested in a similar arrangement (for both undergraduate and graduate students), and to determine if there were other facilities that might meet the needs of the University. As a result, Valpo extended its lease agreement with the owner of the original facilities and identified units that might be good options to accommodate graduate students in the future.

Implementation

Following are summary implementation guidelines that might be used to institute the apartment lease program. Optimally, this exercise would begin 12 – 18 months prior to commencement of the lease to allow lessors sufficient time to end or modify contracts with current tenants.

- Issue RFI – Enlist the Student Affairs staff to assist in incorporating desired amenities, possible locations. Purpose is to define the institution's needs and identify lessors who might be interested in entering into said agreement.
- Factors for consideration when developing the RFI and/or subsequent contract:
 - Amenities: Furnished/unfurnished? Bedroom/bath mix? Washers/dryers? Full kitchens? Fireplaces? Workout facilities? Swimming pool? Common areas?

- Government laws/restrictions: Consider applicable government regulations that might prove to be problematic or restrictive. (Fire codes, parking space requirements, occupancy requirements, etc.)
- On-site management: On-site managers can facilitate the work of Student Affairs staff.
- Responsibility matrix: Consider what parties will be responsible for cleaning, painting, repairs and maintenance. Develop logistics for reporting/requesting maintenance needs.
- Programmatic needs: Define level of university involvement/control in units. Will resident assistants and/or graduate assistants be used? Programmatic needs may also influence the layout of the rental units (meeting spaces, building versus floor rentals, etc.)
- Contract length: Short-term or long-term?
- Initial pricing: Negotiate rates that will allow for desired program expenses to be built into the rate that will ultimately be charged to the student. The goal is to remain competitive as compared with the institution's other student housing facilities as well as those that students might lease independently in the community.
- Subsequent rates: Determine annual rate increases from lessor and how increases will be passed along to students. One possible scenario is to tie annual increases to the U. S. Consumer Price Index (CPI).
- Payment timing: Allow for collection of housing payments from students prior to submitting payment to lessor. Consider semi-annual payments of rents to reduce staff paperwork and incentivize lessor.
- Utilities: Will students or institution be responsible for utility charges? If institution, set limits and charge additional for monthly or semester overage. If student, define logistics.
- Standardized rules: Follow institution's rules, apartment rules – a mix of both?

- Sublease: Consider development of a separate sublease for the student.
- Deposit: Will the institution or the lessor require a deposit?
- Mail: Will student mail be addressed to the institution or to the apartment address?
- Keys: How will keys/lost keys be assigned/tracked?
- Damages: How will these be assessed?
- Meal plan: Will students be required to purchase a minimum buy-in of campus meals?
- Security: Will the institution patrol the premises and/or provide security services?
- Transportation: Will students be required/prohibited to bring cars to campus?
- Technology: Will the units support the institution's and/or the students' technology expectations? Will additional expenditures be incurred?
- Insurance: Check insurance coverage with your carrier.

Benefits

Valparaiso University has realized significant benefits with the implementation of this lease partnership. The program fills the stated need to supply attractive, modern, private student housing facilities to undergraduate students at an affordable price and without a capital outlay and/or associated borrowing costs. The arrangement allows for flexibility, and has provided administration additional time to research future demographic trends and other types of housing opportunities. This type of partnership might also be considered when institutions remodel/rehab older facilities. Initially conceived as a short-term solution, the program has grown, was recently extended, and continues to be one of the more popular options for students today.

Retrospect

As a new and somewhat unique partnership, there was limited literature/guidance available to facilitate implementation or warn of potential pitfalls. The success of the program was due to many favorable factors, but probably most important was the desire on the part of all parties for the partnership to be successful. Therefore, careful thought and planning went into the development of the arrangement. However, in hind sight, we might have done some things sooner or differently. Two primary examples follow:

Utilities – Valpo chose to build a utility allowance into the rates charged to students rather than billing each student for actual usage. During the first year of implementation, some students abused the use of their utilities. To discourage this in subsequent years maximum usage amounts were established and set forth in the student sublease. Those students that exceed the established maximum amount are now required to reimburse the University for the excess. Since implementation of the maximum use policy, no students have exceeded the limit.

Issuance of RFI – In reality, the identification of the initial lease partner occurred by happenstance as the desired amenities limited the number of apartment complexes that might qualify, especially given the desired proximity to campus. Thus, the original partnership developed without the RFI process. Other local apartment owners, who were unaware of the University's specific requirements, expressed some concern. To remedy this, the RFI process was implemented for subsequent agreements.