A Cottage Industry

These aren't your parents' college bungalows

It used to be the joke that students didn't want to leave college because they were busy having too much fun. Now, the leading reason for delaying graduation may very well be avoiding a decline in the lifestyle department.

With options as diverse as majors, a new style of off-campus housing has appeared on the student-housing scene and industry professionals say that, despite commanding higher rents, students are eager to lease cottage-style houses.

"Sixty percent to 70 percent prefer living in a house over a dorm or garden-style apartment," says James Whitley, Vice President and Chief Operating Officer of Landmark Properties, a fully integrated real estate firm specializing in the development, investment, management and construction of high-quality student housing, with 3,500 beds currently under construction. "The demand is there."

According to the National Center for Education Statistics, a record 21.6 million students were expected to attend American colleges and universities this past fall. For some, they have opted for a living option that resembles an idealized 1950s suburb Ward and June would be proud to call home. That is, if the Cleavers enjoyed an occasional game of beach volleyball.

"Cottage-style housing is a completely new product type, as the structures are built using the newest technologies and have "best-in-class" amenities," says Greg Henry, Founder and CEO of Aspen Heights, a student-housing provider. "They combine the best qualities of a single-family neighborhood with quality management and services."

Aspen Heights' current portfolio of properties managed and under construction is all cottage-style, which includes some attached housing in the form of duplexes and rowhomes. Its pipeline during the next couple of years may include the introduction of new cottage-style concepts, as well as garden-style and mid-rise projects.

Landmark Properties' Retreat in Denton, Texas, Univ. of North Texas
Now Trending

According to a Wall Street Journal report in November, there are 35 cottage communities (19,000 beds) in the country, with another 18 on the way (with approximately 12,000 beds).

"Student cottages are now a widely accepted subsector of the student housing industry," says Whitley. "Both ACC and EDR have entered the cottage space, as well as the two largest equity providers, Harrison Street and Kayne Anderson."

When considering resident rents, it's easy to imagine why. According to Whitley, there is an 18 percent to 20 percent rental premium over and above market rate.

"Rents for cottage housing are generally higher than for other products because of product differentiation, larger unit sizes and better outdoor amenities," says Henry. "Once students are exposed to the product, the premium is typically justified very easily—the basic rules of space/square footage and location still apply, and most students feel they're getting a value based on what they pay."

Another financial advantage is the overall cost of construction. "Construction costs per square foot are lower than for a garden-style project, but that must be weighed against the lower density and larger unit sizes that can be achieved by building houses," says Henry. "Costs vary widely depending on the geography and macroeconomic influences, but our costs probably average at least 25 percent lower than other products on a per-square-foot basis."

At their core, college cottage communities are "modern, purpose-built housing and neighborhood resorts for college kids," says Whitley. "When you add amenities such as pools, tanning beds and golf simulators, cottages become wildly popular."

Henry says he believes this is the "next great thing" in student housing. "As our industry has matured, we have seen a number of high quality niches emerge, from luxury high-rise infill projects to cottages. There are a lot of great projects out there, and we feel like we're definitely a part of one of the growing trends."

Residents of Aspen Heights cottage communities can take advantage of resort-style amenities in a neighborhood-like setting.

New Markets

It's not just the students who are keen on cottages. According to Henry, this style of housing has received significant attention from investors, lenders and buyers. "This is due to the rental premiums, the specialized nature of management and construction, and the difficult barriers to entry for this product."

Where there are great opportunities, there also exist challenges—larger land requirements, for one.

It may resemble their parents' homes, but given these are college kids we're talking about, there is potential the student housing won't be treated in a similar manner. Not to worry, says Whitley, "a lot of attention is paid to the durability and longevity of the materials."

Nearly all of Landmark's exterior siding and trim materials are synthetic. Additionally, Whitley says his company is the only cottage-style builder that does an elevated slab with brick finish. "This both improves the durability and increases the aesthetic appeal."

Interestingly, Whitley reports few problems with crimes against property. "We have quarterly inspections, and that sets the tone," he says. "We incentivize good behavior through good management."

These inspections are an opportunity for the management team to enter each residence and identify any substantial damage or trends of abuse, says Whitley. "When issues are identified, they are addressed immediately," he says. "Doing it this way allows us to minimize the workload during the busy turn season and puts us in a better position to curb future destructive behavior. If the damage or abuse is severe enough, the resident may be evicted."

The inspections go a long way toward saving time, money and effort in repairs, they also occasionally turn up other less-traditional violations. "We found a hedgehog and baby alligator,
neither are pets that we allow," jokes Whitely.

Another cost consideration is landscaping, which runs higher because "we have more of it," says Whitely. Although the landscape maintenance costs are higher, it's offset by the rent premium, he says. "Expenses are in line with the rest of the industry."

**Current and Future Development**

Whitley says his acquisitions team is searching the country for investment entry points. "This is something that can work in numerous markets if you can find the land," he says. "We're finding better sites in markets with high barriers to entry. We are currently leasing State College, Penn., and we are blowing the doors off. We are also doing extraordinarily well in Tucson, Ariz. We have a fantastic location in both markets and the kids love the cottage concept."

At first blush, there is little that stands out that could be called similar about the Pennsylvania and Arizona markets. Dig a little deeper, though, and it becomes clearer why these locations are considered prime.

"Demand for cottage-style living follows larger trends in the student housing industry, which focus on large schools with growing enrollment," Henry says. "Traditionally, developers have had the most success developing in southeastern schools where weather and the development climate are favorable toward student housing. Ultimately, for a cottage developer, it all comes down to land."

One thing that determines the utility of a site is how far it sits from campus. Whitely says that the best-located sites in any market are the closest to the school, and his company limits this distance to three miles. "People will go farther to live the cottage lifestyle," he says. Fortunately for the students, distance is rarely a concern, as transit options are normally available nearby. Landmark's Penn State development sits on the bus transit route for the campus. Another community, recently opened about a mile from the Purdue campus, has both public transit and its own private shuttle buses, according to Loren King, Chief Operating Officer and General Counsel for Trinitas, a developer, owner and manager of commercial real estate specializing in student housing and mixed-use communities, which is based in Lafayette, Ind.

Trinitas' first foray into cottage-style housing is an 18-acre

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Landmark's cottage communities feature broad swaths of green space and charming details such as this outdoor stone fireplace. Community a mile from campus. It's 745 beds are spread across two-, three-, four- and five-bedroom cottages, and the community features a 6,500 square-foot clubhouse, a fitness center, Internet café, study rooms, tanning center, recreation and gaming room, pool and sundeck, hot-tub, and basketball and sand volleyball courts. Students here have access to a shuttle to and from campus every 15 minutes, in line with classes, with extended hours Thursday, Friday and Saturday. "It's all about convenience for our residents," says King.

"There's lots of 'buzz' for cottages," he says. "They are definitely perceived as different than traditional student housing. They command a premium, but have to be developed and marketed correctly. Students value not having neighbors above or below them, having their own yard and having access to high-end amenities.

"They get to have the best of both worlds — the privacy, space and amenities of their own house coupled with the sense of community and social interaction of a large fully-amenitized, by-design student community. Our tremendous leasing velocity and year-over-year rent increases evidence the value students place on the cottage concept," says King.

"Developing and constructing cottages is definitely different than developing other mid- or high-density student product," says King. One of the differences, and a consideration for all developers looking at constructing cottages, is the higher infrastructure cost. The projects are spread out, and King says that 200 buildings means having 200 separate taps for water and sewer and other utilities. "And, it's a lot more exterior skin," he says.

There are cost savings, though. The structures, normally wood-framed and two stories, are less expensive and simpler to build than traditional multifamily buildings because more contractors are qualified to bid on the work than on multi-story steel and concrete structures.

The marketing is largely the same, though, says King. "We use the same marketing channels: website, Internet, traditional ads, grassroots, school paper, social media and flyering, among others," he says. "Our staff is trained similarly, though the message and techniques are different. It's all about lifestyle. Of course, the most
precious marketing channel, word of mouth, which is priceless and cannot be purchased, has been significant for us at Purdue. We are 90 percent pre-leased for next August already, largely from word of mouth."

**Built to Last**

According to Henry, the logistical challenges in managing cottage communities are two-fold—the maintenance team has to cover larger distances and involving residents is challenging.

"Since the homes are individual units instead of one or more high-density buildings, there's much more independent maintenance that needs to occur," he says. "We have 200 roofs instead of two. Since the product is new, we aren't dealing with aging facilities yet. Keeping up with our preventative maintenance and maintenance supervisors with great time-management skills help tremendously."

With regard to the residents, Henry says his company has created initiatives to involve the students.

"The houses are wonderful for independence and a more autonomous lifestyle for our residents, but once they get home they like to stay in their cozy homes," he says. "We've stepped up our resident initiatives a great deal to bring them out and get them involved. Allowing pets and having a dog park are two of the ways residents connect with each other and with us. They have to walk their dogs and we do a variety of programs surrounding our four-legged residents that their owners really appreciate. Serving the students where they are and with what they are interested in is by far our best asset in getting them out of their homes and involved in the community."

Despite their appeal, it's important to remember that cottages are not for every apartment owner or manager. "We are a vertically integrated company that has been underwriting, developing, building and operating cottages for nearly a decade," Whitley says. "We have highly complex underwriting models and are incredibly meticulous. Anyone looking to develop cottages would face a steep learning curve."

Entering the cottage-style student housing market space is one challenge; staying there is another.

"Developing, constructing and managing a cottage-style project requires a specific set of construction and management skills," Henry says. "There are advantages and disadvantages to this product type, but it is a niche within the student housing industry that not all groups are equipped to handle. From the development perspective, it is much more land intensive and has a larger focus on horizontal infrastructure than a typical low or mid-rise project. Everything from the landscaping and streets to the design of the buildings themselves needs to be perfect for the project to function properly and last."

**The Glamorous Life**

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college dorms and campus high-rises intimately understands the value of a personal bathroom, but residents of cottage communities are able to enjoy much more.

Aspen Heights’ residents can take advantage of resort-style swimming pools, 24-hour fitness centers and in-house movie theaters all located in gated and controlled-access facilities.

Landmark is currently developing The Retreat, a 587-bed community in State College, Penn., about a mile or so from Penn State, featuring 138 two-, three-, four- and five-bedroom cottages on 24 acres. The community’s clubhouse, a mammoth 16,000 square feet, offers residents indoor basketball and racquetball courts, golf simulator, fitness center, study rooms, cyber café, game room, video gaming pods, a fully equipped kitchen, and spa suite complete with (I'm not making this up) sauna, tanning bed and domes, massage room and a manicure/pedicure station.

Outdoors, within the jogging path that encircles the community, will be sand volleyball and bocce ball courts, outdoor fire pit and grilling area and “the largest pool in the market (resort-style, with hot tub).”

Akin to Aspen Heights, Landmark’s cottages at The Retreat will have private bathrooms and large closets for each bedroom. Also similar to others in the cottage market space, they feature full-size washers and dryers, 9-foot ceilings, high-speed internet access and gourmet kitchens with all the trimmings.

“Our amenities surpass many post-collegiate housing facilities,” Whitley says. “My son or daughter’s living standards will likely go down after graduation.”

“There’s very few amenities that we can’t offer—we spend ample time talking to students before we enter new markets to find out what they want and try to tailor the product as much as possible,” Henry says.

Still, not every market will be able to play home to cottage-style housing. “Due to the inherent lower density of the product, the cottage-style product is not well suited to urban markets,” Henry says. “On a national scale, most of the cottage successes have been in the southeast, but that is not to say that they would not perform equally well in other regions. We believe that the preference for a house over an apartment is almost universal.”

“It's an incredible marketing experience to represent this product in markets that are more accustomed to apartment living, and most students respond very favorably to our value proposition—more space, luxury amenities and freedom of a home that’s often very similar to what they’ve grown up in,” Henry says. “When we first get established in new markets, most students see pictures and believe it’s ‘too good to be true.’ Students typically begin picturing what their living experience might be like in a cottage community once we get a chance to talk to these students and share stories from other properties.”

Frank Mauck is NAA’s Manager of Communications. He can be reached at 703/797-0647 or frank@naahq.org.

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