

## College Housing Firms Aim Upscale

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Public companies that operate student housing have begun to build upscale houses with bedrooms clustered around gourmet kitchens and access to amenity-filled clubhouses. Landmark Properties CEO J. Wesley Rogers and WSJ's Dawn Wotapka discuss on Lunch Break. Photo: Kayne Anderson Real Estate and Luker Photography. Photography.

The communities surrounding college campuses have long been filled with houses catering to students who have tired of living in dorms.

Now, public companies that operate student housing are trying to break into that market. In the past, companies like [American Campus Communities Inc. ACC -1.18%](#) and [Education Realty Trust Inc. EDR -1.25%](#) have mostly developed apartment buildings near colleges that offered

students private rooms and bathrooms and a long list of amenities, including resort-style pools and tanning beds.

These days the companies have begun to build upscale houses with bedrooms clustered around gourmet kitchens and access to amenity-filled clubhouses. Known as cottage-style housing, the relatively new product is becoming popular with operators and students.

Nationwide, there are 35 cottage communities with nearly 19,000 beds. Another 18 are under way or in the works, with roughly 12,000 beds, said Wes Rogers, chief executive of Landmark Properties Inc., which has built roughly one-third of the cottages in the U.S. While cottage-style housing represents a small percentage of the nearly 500,000 beds controlled by the sector's top companies, industry watchers expect the bed count to increase as the product catches on.

"It's sort of the next evolution of student housing," Mr. Rogers said. "You don't have neighbors above you like in a traditional dorm environment. You literally live in your own house."

Developers are building these properties to house an expanding student population: More than three million high-school students are expected to graduate annually until the 2018-19 academic year, well above the roughly 2.5 million graduating in 1993-1994, according to the Department of Education.

Moreover, universities don't have enough beds and much of the current supply, tall towers with communal bathrooms, has lost favor among the McMansion generation. Schools, many struggling with budget cuts, can't afford to build new dorms.

Operators like cottages because the rooms typically command rents at least 10% higher than other off-campus housing. And students tend to like them: Landmark had waiting lists in half of its 16 communities this academic year. Its cottage product is 96% leased, compared with 93% for apartment-style housing.

But some industry watchers fear students' increased attention to debt could be pushing them to cut costs by living at home. Education Realty Trust, also known as EdR, surprised the industry this month when it reported an occupancy rate of 90.5% for this academic year, down from 94.7% a year ago.

Rents increased 5.1%, possibly pushing students to seek cheaper digs. Should the economy weaken, students could continue trading down. Every developer is at risk of beds flooding the market, forcing them to cut rates. Also, competitors are building closer to campus, where students usually want to live.

Partly due to these concerns, the sector's stock-price growth has slowed. Last year, the stocks of both American Campus and Education Realty gained more than 35%, more than double the apartment sector's returns. This year, Education Realty has gained 1.7%, while American Campus has advanced 4.1%. Stocks in the apartment sector are up about 4%.

Jeffrey Kolitch, portfolio manager of the Baron Real Estate Fund, which invests in both American Campus and Education Realty, said he isn't worried about the stocks. "I wouldn't send the alarm signals on these companies," he said. "The stocks were rock stars last year. They're just taking a pause."

Others aren't so sure. J.P. Morgan JPM -0.08% analyst Anthony Paolone said he likes the sector's long-term potential, but there could be "more juice" for now with other companies, such as warehouse firm Prologis Inc. PLD -1.30% and mall company Simon Property Group SPG +0.04% Inc..

Still, cottage-housing deal activity is intensifying. In September, American Campus, the nation's largest student-housing operator by number of beds, paid \$52 million for the 780-bed Retreat at San Marcos, a new 187-cottage community developed by Landmark and serving Texas State University in San Marcos. Landmark also is developing more than 660 beds near the University of Mississippi in Oxford with EdR and about 590 beds for Pennsylvania State University in State College, Pa., which EdR has an option to buy. The projects, in which rents could be as much as \$695 and \$865 a month, respectively, should open next year.

On the University of Mississippi campus, single rooms on campus start at \$5,600, or \$622 a month, for the nine-month academic year, not including meals. At the Taylor Bend community a half-mile from campus, a three-bedroom, three-bath unit starts at \$535 a person per month. Leases for off-campus housing typically are for 12 months.

Developers believe they will continue to attract students with amenities. At the Cottages of Columbia near the University of Missouri, the units include 9-foot ceilings, stainless-steel appliances, hardwood floors and marble bathroom countertops. Other developers include walk-in closets, steam rooms, indoor golf simulators, basketball courts and yoga studios.

"My parents told me to not get used to living like this," said Avery Bond, a Louisiana State University senior who has lived at the Cottages of Baton Rouge for three years and pays \$630 a month.

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