"Passports to Planning"

On-Campus Student Housing: The Dollars And ~~Cents~~ Sense of Public / Private Partnerships

Society for College and University Planning
International Conference and Expo

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Introduction

Agenda

- Public / Private Partnerships
- Financial Concepts
- Case Study: University of Miami
- Benchmarking and Trends
- Summary and Discussion

Public / Private Partnerships

Ownership Structures

- Traditional: *University-Owned*
  - University owns land and building
  - Tax-exempt financing
- Hybrid: *Foundation or Non-Profit Owned*
  - University owns land
  - Foundation or other non-profit owns building
  - Tax-exempt financing
- Privatized: *Developer-Owned*
  - University owns land
  - Developer owns building
  - Taxable financing

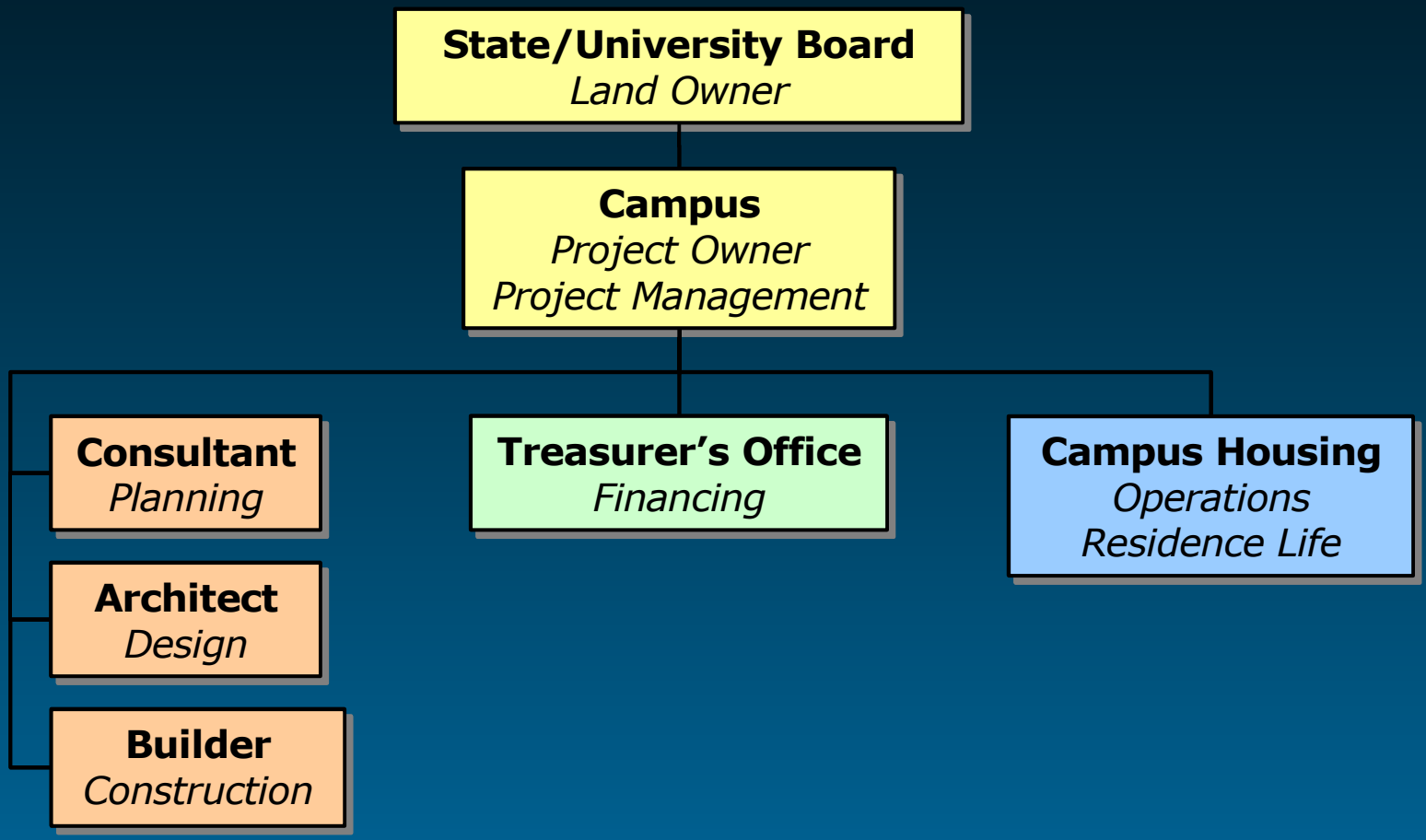
Public / Private Partnerships

Players and Roles in Partnerships

Roles	Players		
	Traditional	Hybrid	Privatized
Land Owner	Campus	Campus	Campus
Project Owner	Campus	Non-Profit	Developer
Project Management	Campus	Developer	Developer
Design	Architect	Architect	Architect
Construction	Builder	Builder	Builder
Financing	Campus	Campus or Developer	Developer
Operations	Campus	Campus or Developer	Developer
Residence Life	Campus	Campus or Developer	Developer

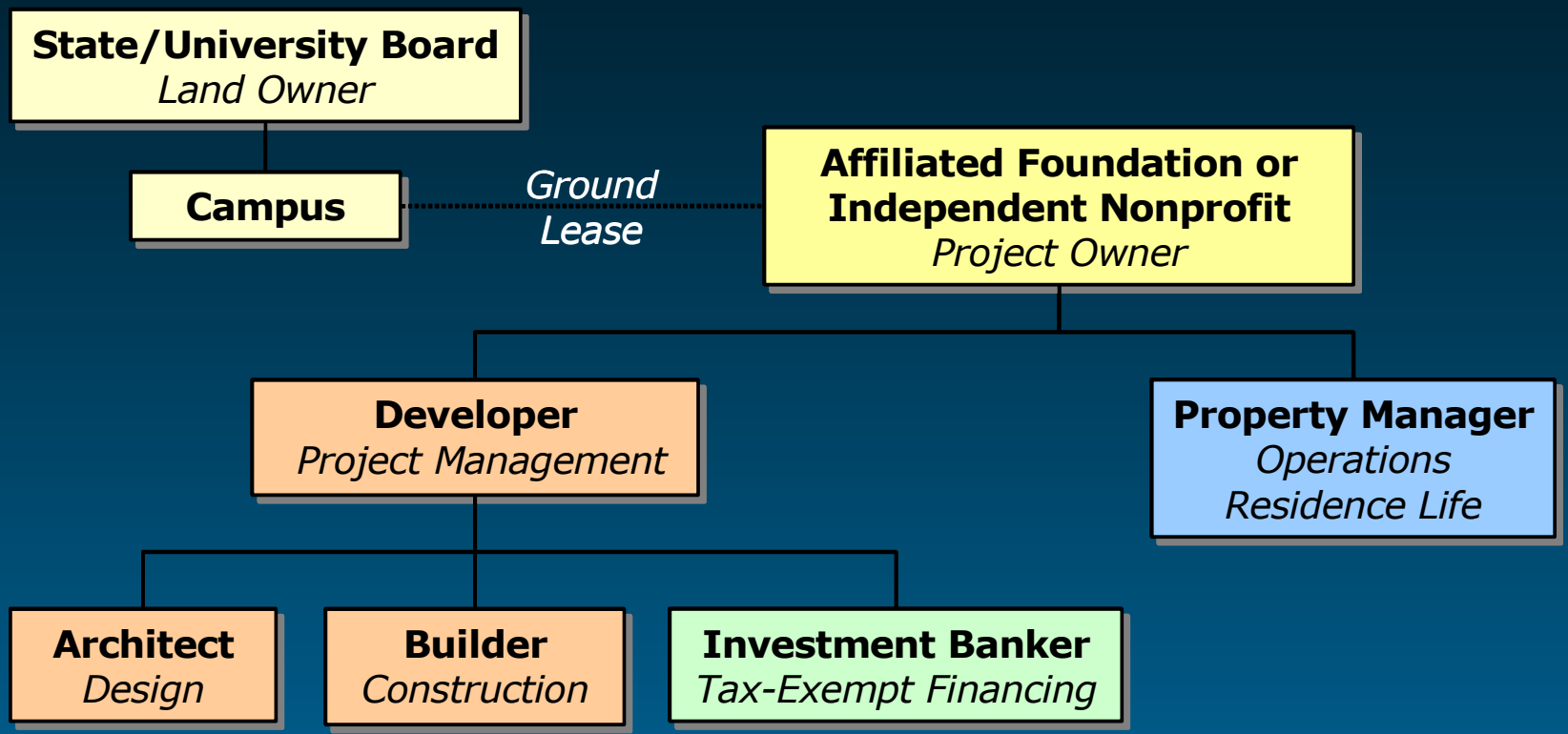
Public / Private Partnerships

Traditional Structure



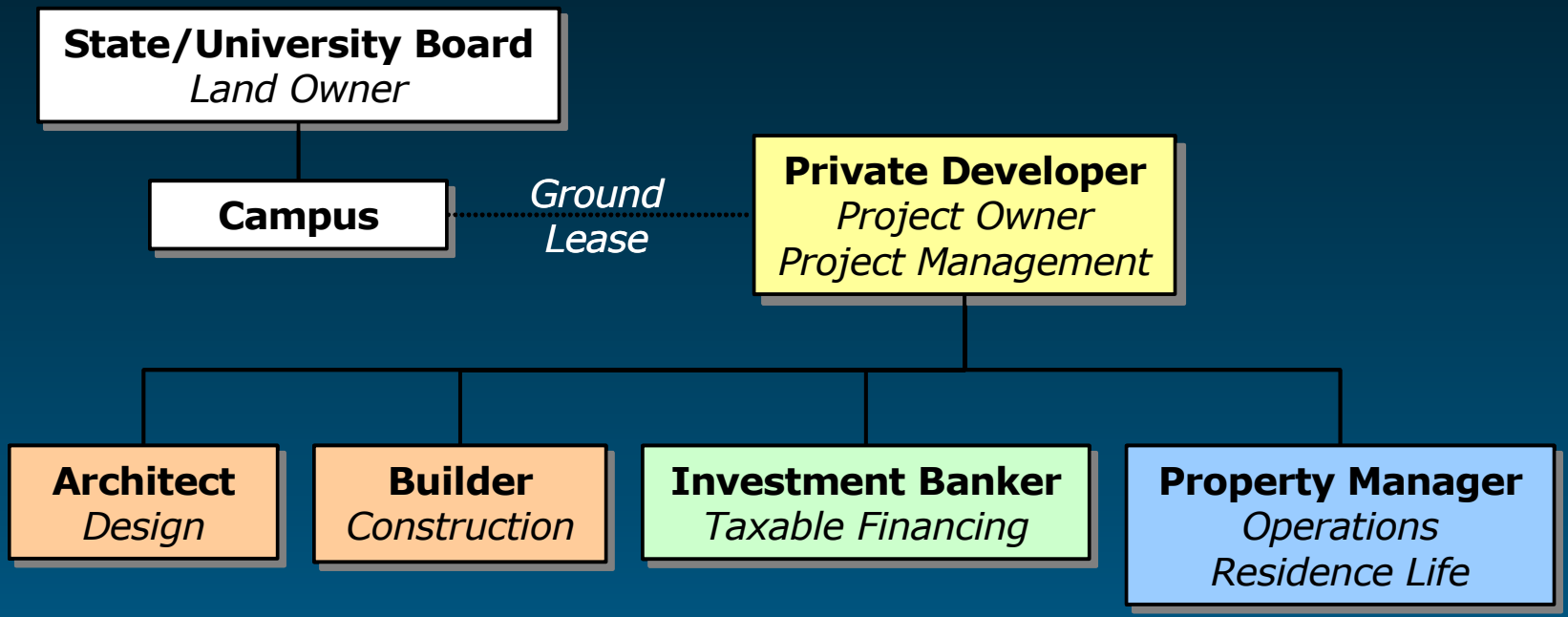
Public / Private Partnerships

Hybrid Structure



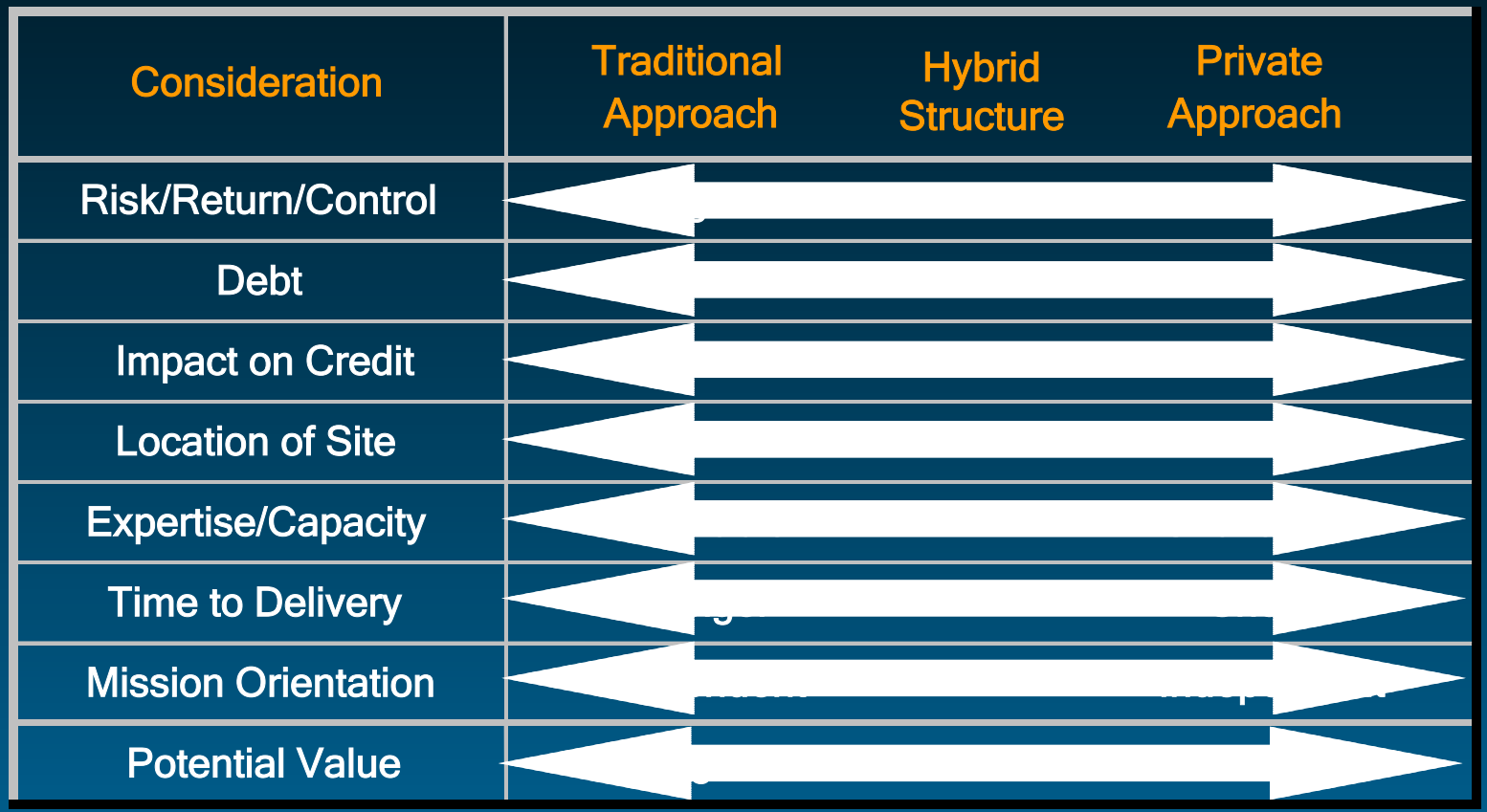
Public / Private Partnerships

Privatized Structure



Public / Private Partnerships

Considerations in Choosing a Structure



Financial Concepts

Balancing a *Self-Sustaining* Project

- Rents
- Quality
- Schedule

Primary Drivers

- Rents are driven by the market
- Quality is driven by the budget
  - Revenues = *ƒ (market)*
  - Operating costs = *ƒ (mission and operator)*
  - Financing costs = *ƒ (ownership)*
- Schedule is driven by the partnership structure

Financial Concepts

Balancing Revenues and Costs

A change in any assumption requires compensating changes in other assumptions to maintain balance

Operating Revenues
- Rent
- Occupancy %
- Other Revenues

Non-Operating Revenues
- Earnings on Reserves
- Subsidies

=

Operating Costs

Capital Costs
- Development Budget
  - *Area per Bed*
  - *Cost per SF*
- Debt Service

Reserves / Surplus

Financial Concepts

Economics of Student Housing 101

- Self-Sustaining Project
  - Revenues = Costs
  - Example Per Bed Analysis
- Assumptions

	Traditional / Hybrid / Privatized
• Rental rate	$500 per month – 12 mo
• Occupancy	95%
• Other revenues	2% of rent
• Operating cost	$6.00/ $5.50/ $5.00 /gsf
• Reserves	3% of revenues
• Financing term	30 yrs
• Financing rate	5.0% / 6.0% / 7.5%
• Debt service coverage	1.00x / 1.20x / 1.25x

Financial Concepts

Financial Comparison of Structures

	Traditional	Hybrid	Private
Operating Budget			
Gross Potential Rent	$ 6,000	$ 6,000	$ 6,000
Net Rent	5,700	5,700	5,700
Other Revenues	114	114	114
Net Revenues	$ 5,814	$ 5,814	$ 5,814
Operating Cost	2,100	1,930	1,750
Ground Rent	-		300
Reserves	180	180	180
Net Operating Income	**$ 3,534**	**$ 3,704**	**$ 3,584**
Cost of Capital			
Debt Service Coverage	*1.00*	*1.20*	*1.25*
Max. Available for Debt Service	3,534	3,087	2,867
Less: Return on Equity	NA	NA	NA
Available for Debt Service	**$ 3,534**	**$ 3,087**	**$ 2,867**
Potential Surplus	**$ -**	**$ 617**	**$ 717**

Financial Concepts

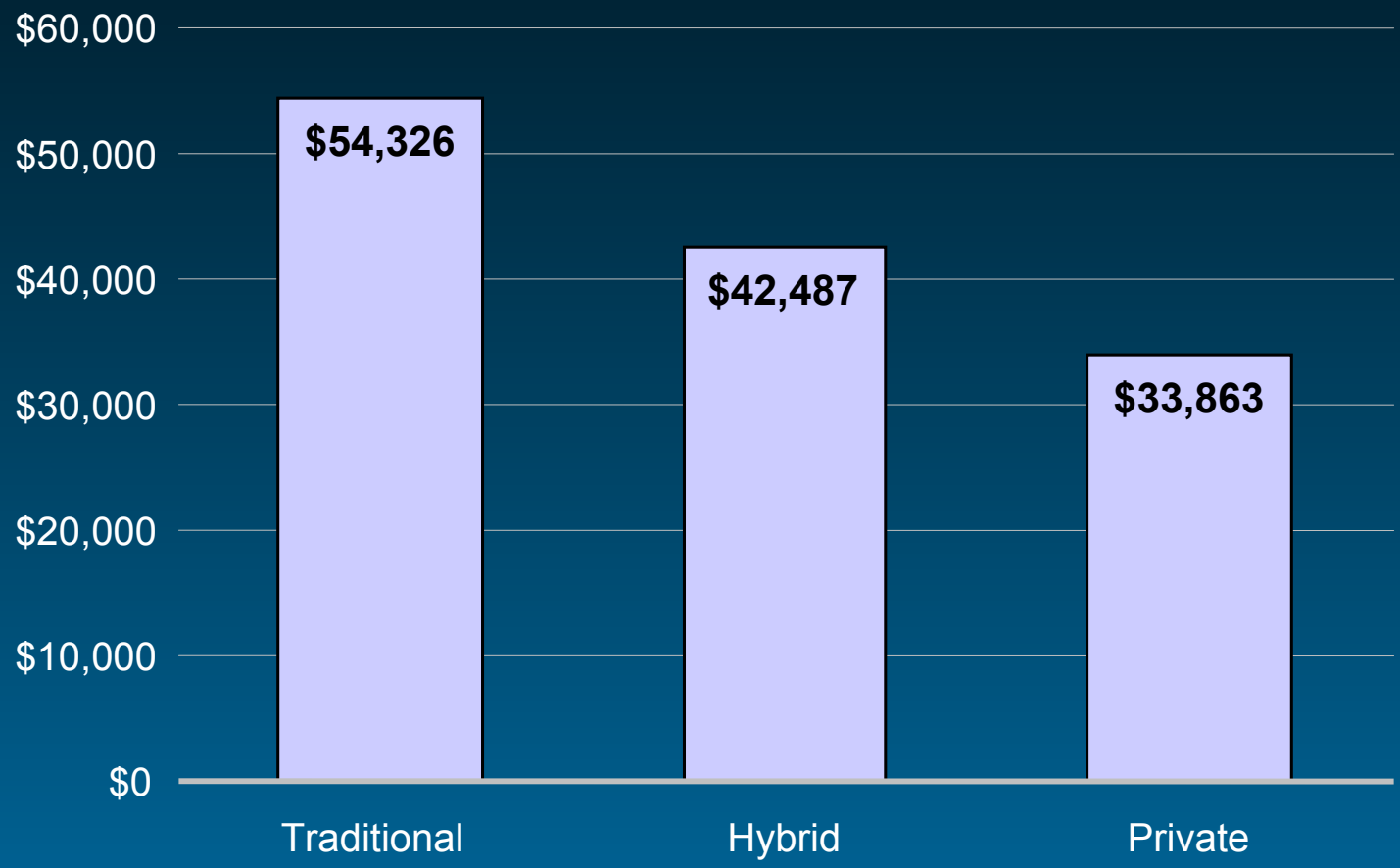
Financial Comparison of Structures

	Traditional	Hybrid	Private
Capitalization			
Borrowing Rate	*5.00%*	*6.00%*	*7.50%*
Term	*30*	*30*	*30*
Loan to Value	*100%*	*100%*	*100%*
Supportable Debt	$54,326	$42,487	$33,863
Equity	-	-	-
Total Development Cost	**$ 54,326**	**$ 42,487**	**$ 33,863**
Hard Cost Calculation			
Gross Area per Bed	*350*	*350*	*350*
Development Cost per GSF	$ 155.22	$ 121.39	$ 96.75
Construction Cost per GSF	$ 108.65	$ 84.97	$ 67.73

Financial Concepts

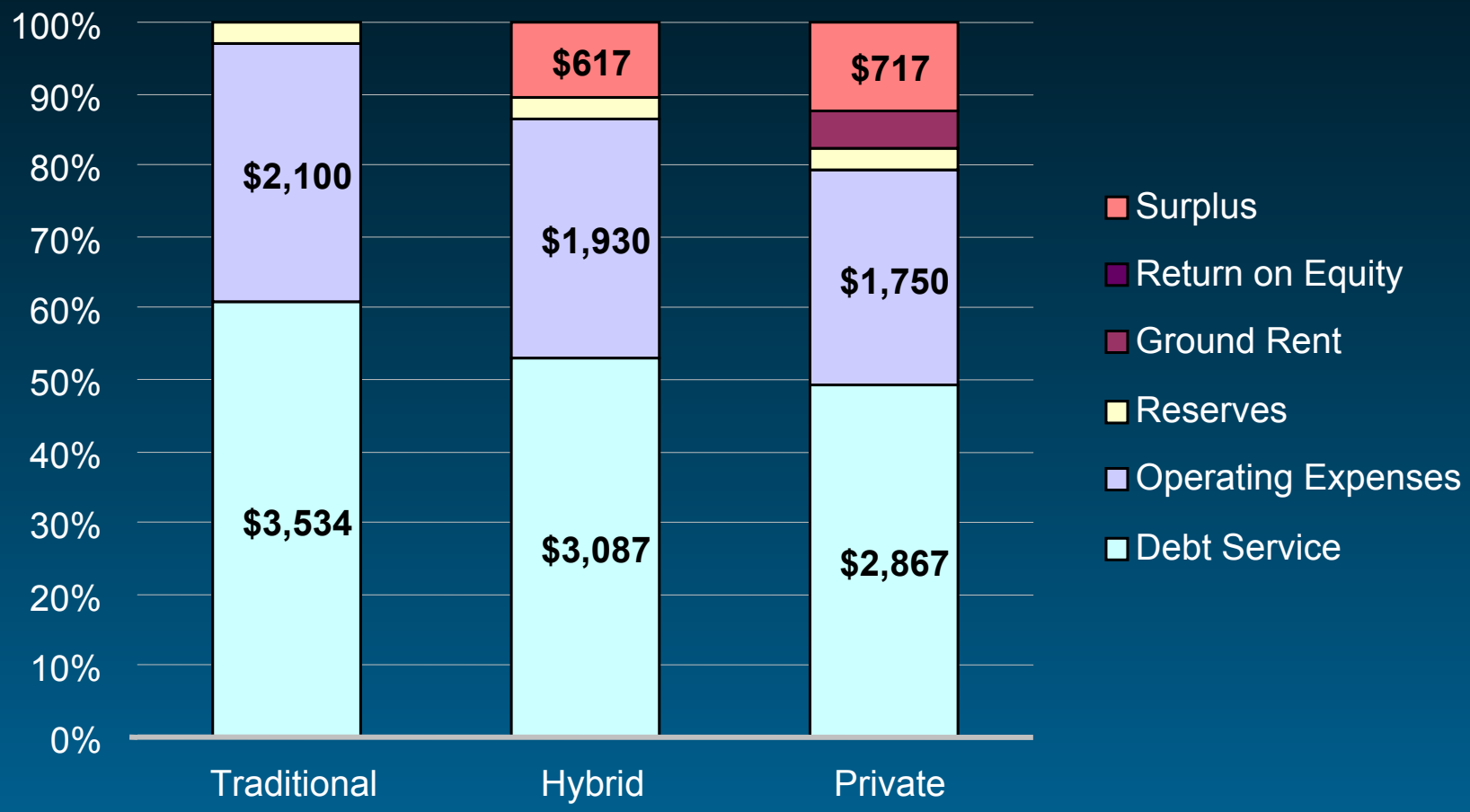
Total Development Cost

100% Financing and Comparable Rents



Financial Concepts

Use of Revenues



Financial Concepts

Hard Cost vs. Gross Potential Rent

Hybrid Structure

Case Study: University of Miami

University Village

- Brief History
- Stakeholders and Interests
- Approach to Developer Selection
- Financial Results
- Final Solution

Case Study: University of Miami

Brief History

- Planning for new student apartments on Red Road began over ten years ago
- Consensus on a solution was never reached either because of lack of project feasibility, trustee rejection, or neighborhood opposition
- Recent strides toward cooperation with Coral Gables resulted in a resurrection of project
- UM turned to the private sector for help in bridging gap between its desires and a financial compromise with Trustees' expectations

Case Study: University of Miami

Stakeholders and Interests

- University of Miami Administration
  - Required a financially self-sustaining project
  - Set very high standards for design and construction quality with little regard for impact on rents
  - Operated existing housing and residential colleges at a high cost per bed
  - Had funding in hand at a high tax-exempt rate
- UM Board of Trustees
  - Expected cost be in line with private sector
  - Wanted to participate in the selection process

Case Study: University of Miami

Stakeholders and Interests

- University of Miami Students
  - Largely ignored in the process
  - The users, and sole source of revenues for the project, were rarely involved in planning
- Coral Gables
  - Opposed any additional housing for fear of increased traffic and parking problems, and unruly student behavior
  - Delayed the project successfully through jurisdictional approvals process and the courts

Case Study: University of Miami

Approach to Developer Selection

- UM's reaction to failed attempts
  - Removed all constraints on the developers except adherence to campus master plan
  - Provided a site, unit style, number of beds, and minimum specifications
  - Were silent on rents, demand, common area requirements, ownership structure, and selection criteria
  - Requested pre-schematic proposals with pricing

Case Study: University of Miami

Approach to Developer Selection

"You got to be very careful if you don't know where you're going, because you might not get there."

Y. Berra

Case Study: University of Miami

Approach to Developer Selection

- Request for Qualifications
  - Solicited responses from over 100 firms
  - Received qualifications packages from 13 teams
  - Created a short list of 6 firms
  - Interviews reduced the list to 3 finalist firms
- Request for Proposals
  - Requested design and cost proposals from finalists
  - Proposal for each of three ownership structures
  - Set operating costs and terms of financing for the Traditional approach

Case Study: University of Miami

Approach to Developer Selection

- Workshops
  - Introduced at midpoint of proposal development to allow teams to interact with committee before submitting final proposal
  - Half-day charrette to present preliminary concepts and engage university in dialogue
  - Benefits
    - Allowed Committee to observe how respondents worked as a team and interacted with the University
    - Gave respondents valuable input on initial concept and directed preparation of final proposal.

Case Study: University of Miami

Approach to Developer Selection

- Selection
  - Final presentations
  - Consensus was achieved on successful respondent with minimum deliberation
  - Successful proposal
    - Came closest to understanding what the University eventually came to understand that it wanted
    - Provided numerous alternatives, which demonstrated their creativity and commitment to the project
    - Demonstrated that they were the best team to guide Miami through the programming and design process
    - Though not perfect, committed no major errors

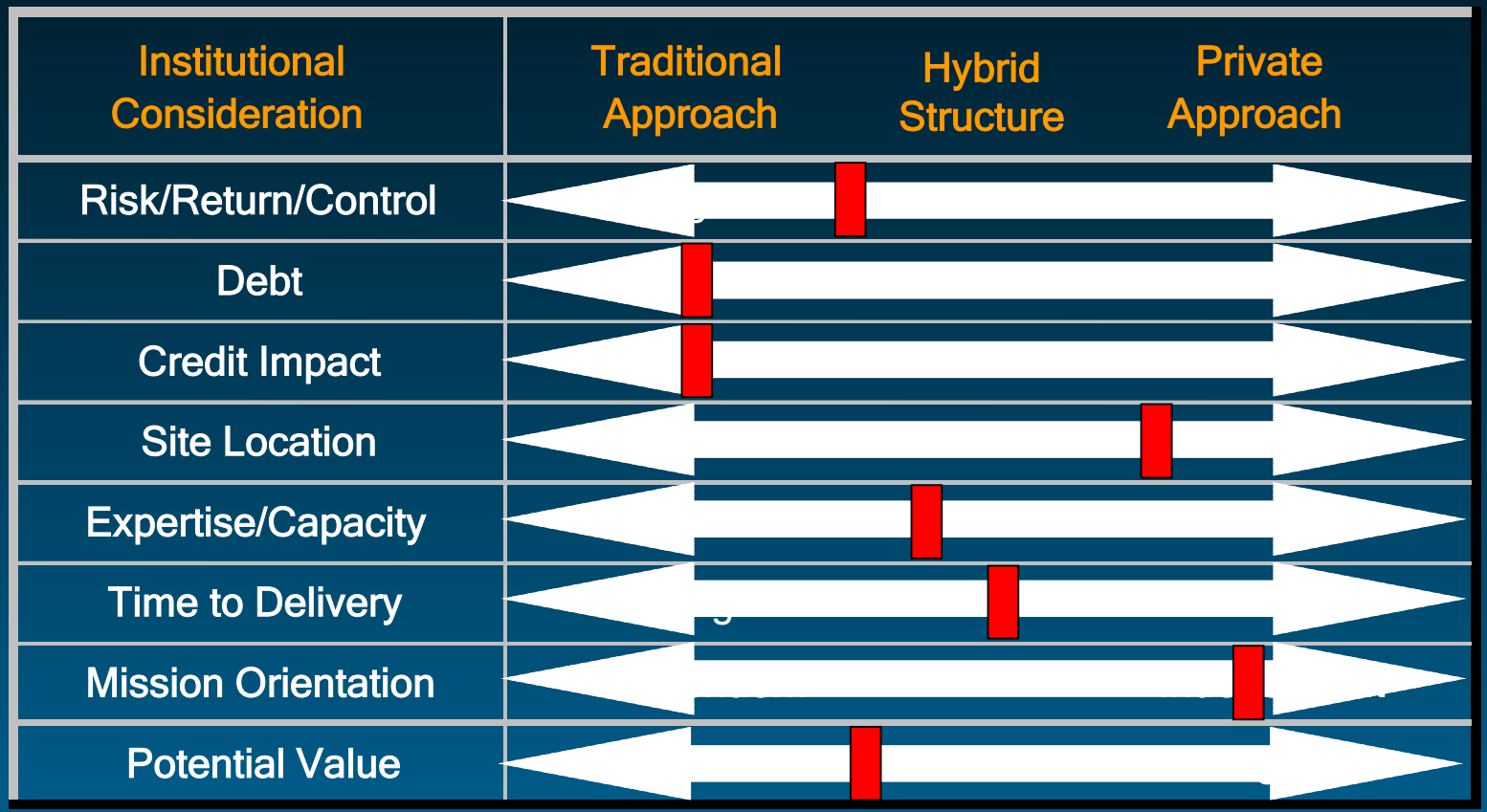
Case Study: University of Miami

Comparison of Results by Developer

	Traditional	Hybrid	Privatized
Development Cost	**$57,257**	**$60,676**	**$61,941**
Developer 1	$44,895	$50,281	$54,222
Developer 2	69,995	78,211	84,529
Developer 3	56,881	53,536	47,073
Rents *(4BR/2BA)*	**$663**	**$511**	**$661**
Developer 1	$550	$550	$550
Developer 2	825	600	750
Developer 3	614	384	683
Operating Costs	**$4,304**	**$1,981**	**$2,048**
Developer 1	$4,068	$2,257	$2,353
Developer 2	4,426	1,920	1,658
Developer 3	4,418	1,766	2,133

Public / Private Partnerships

Final Solution



Case Study: University of Miami

Final Solution

- University of Miami
  - Owner: Land and improvements
  - May use existing funds at premium rate
- Developer: JPI Campus Quarters
  - Development
    - Functions as Design/Builder for a fee
    - Hires design team and builder
    - May provide tax-exempt revenue bonds
  - Operations
    - Manager for a fee in coordination with UM

Benchmarking and Trends

Developer Survey

- Developers of On-Campus Student Housing
  - Allen & O'Hara
  - American Campus Communities
  - Ambling Companies
  - Capstone Development
  - Century Development
  - Campus Housing Northwest
  - JPI Campus Quarters
  - Place Properties
  - University Housing Services
- Projects delivered 1995 through 2004

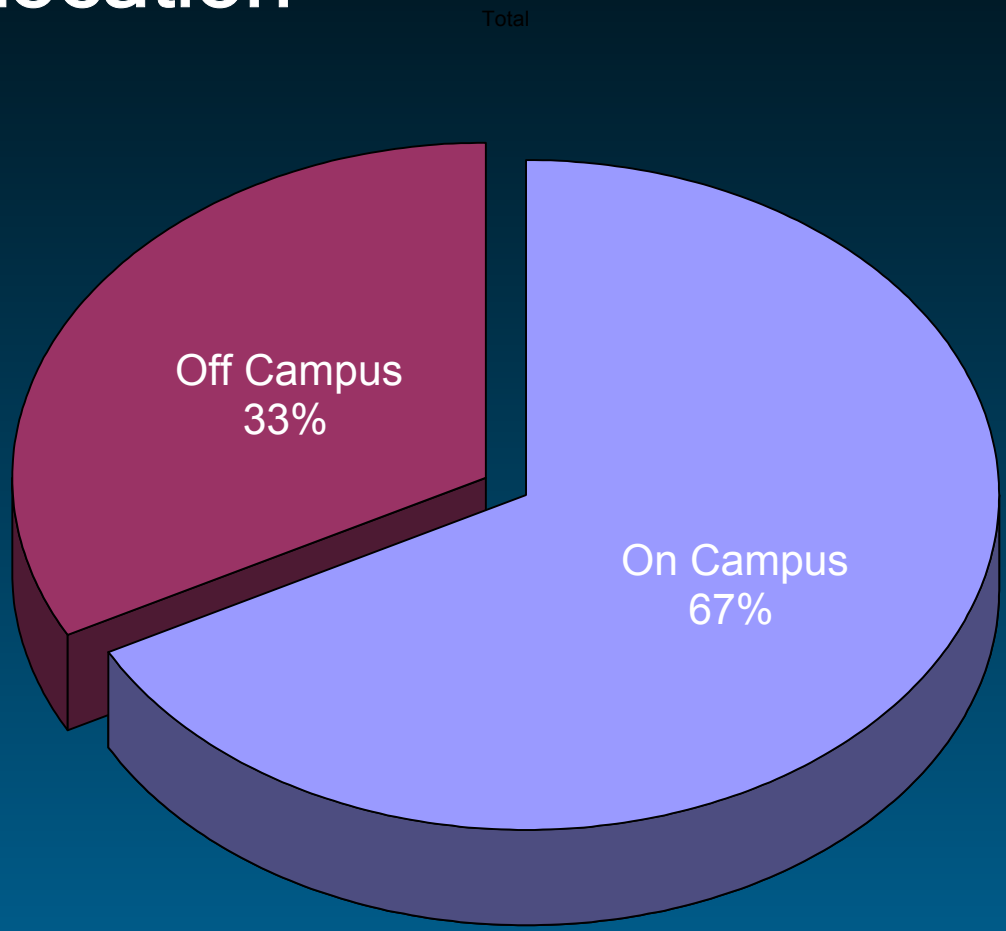
Benchmarking and Trends

Developer Survey

▪ Total Projects	235
▪ Beds	
• Total	116,800
• Median per project	455
▪ Gross Area	
• Total	39,723,000
• Median per project	154,503
▪ Project Cost	
• Total	$4,025,834,000
• Median per project	$14,537,000

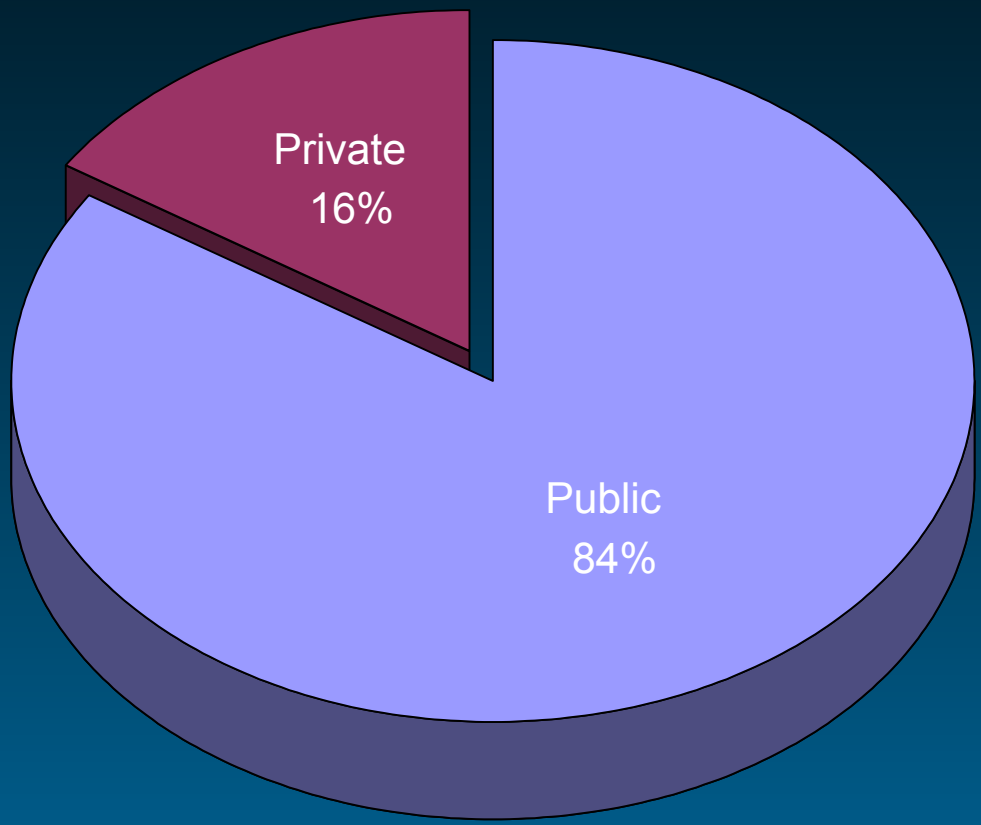
Benchmarking and Trends

Project Location



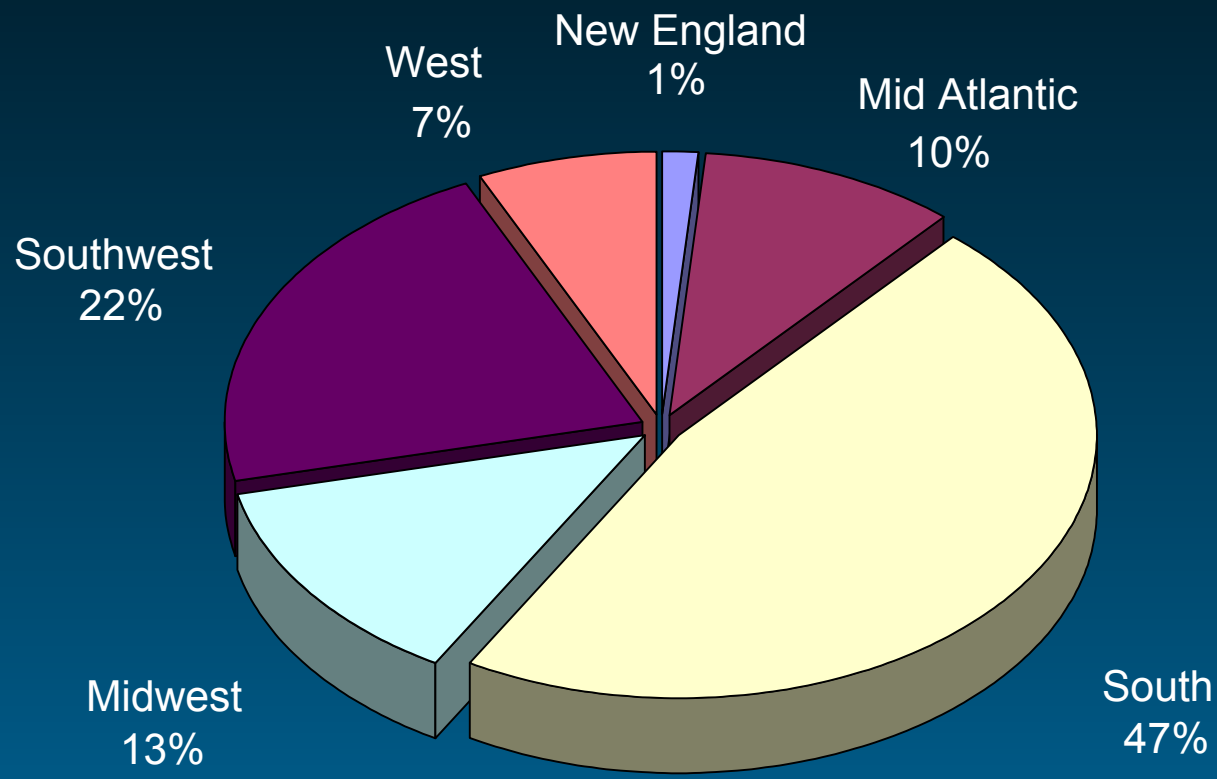
Benchmarking and Trends

Institutional Affiliation



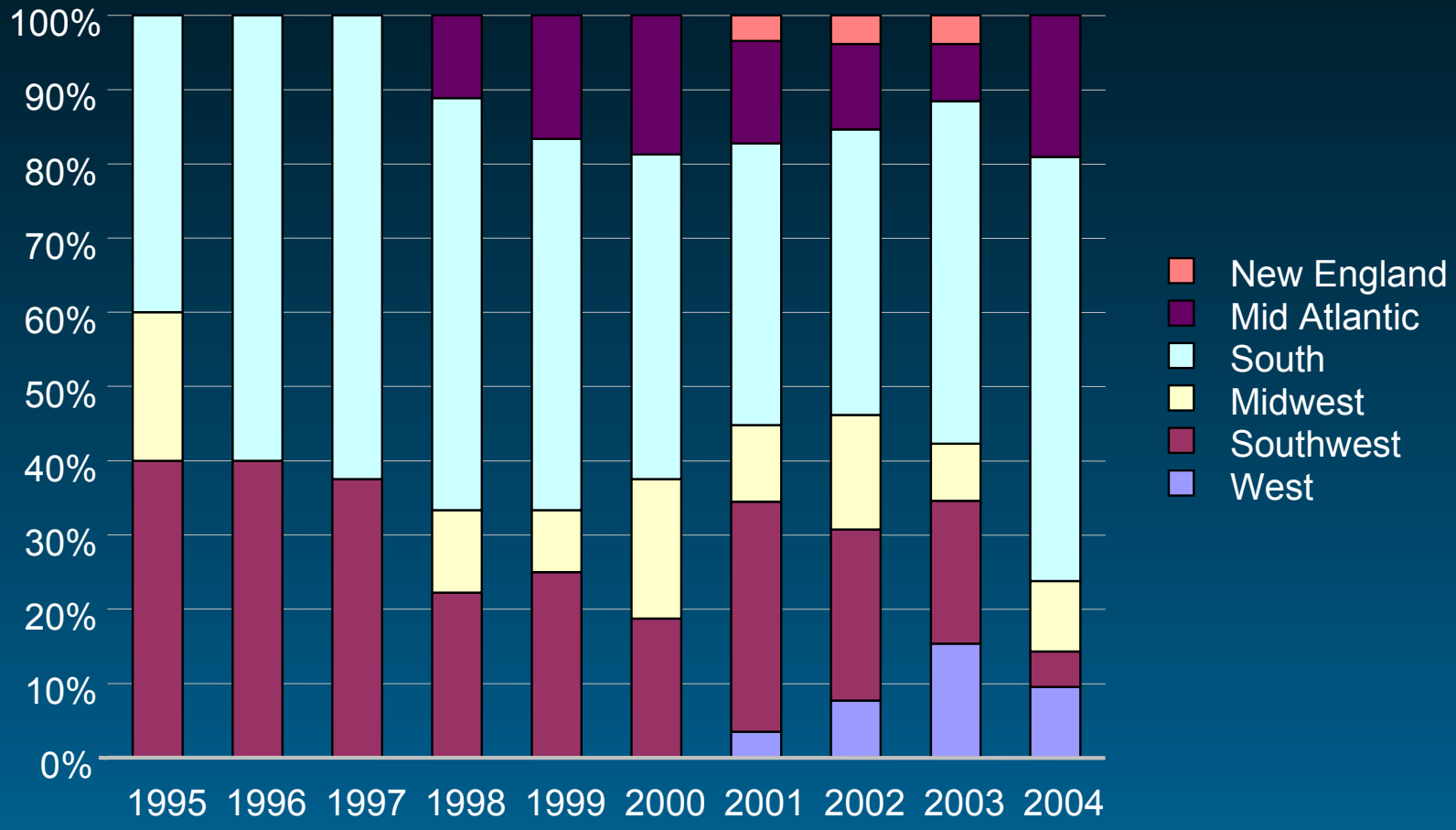
Benchmarking and Trends

Regional Location of On-campus Projects



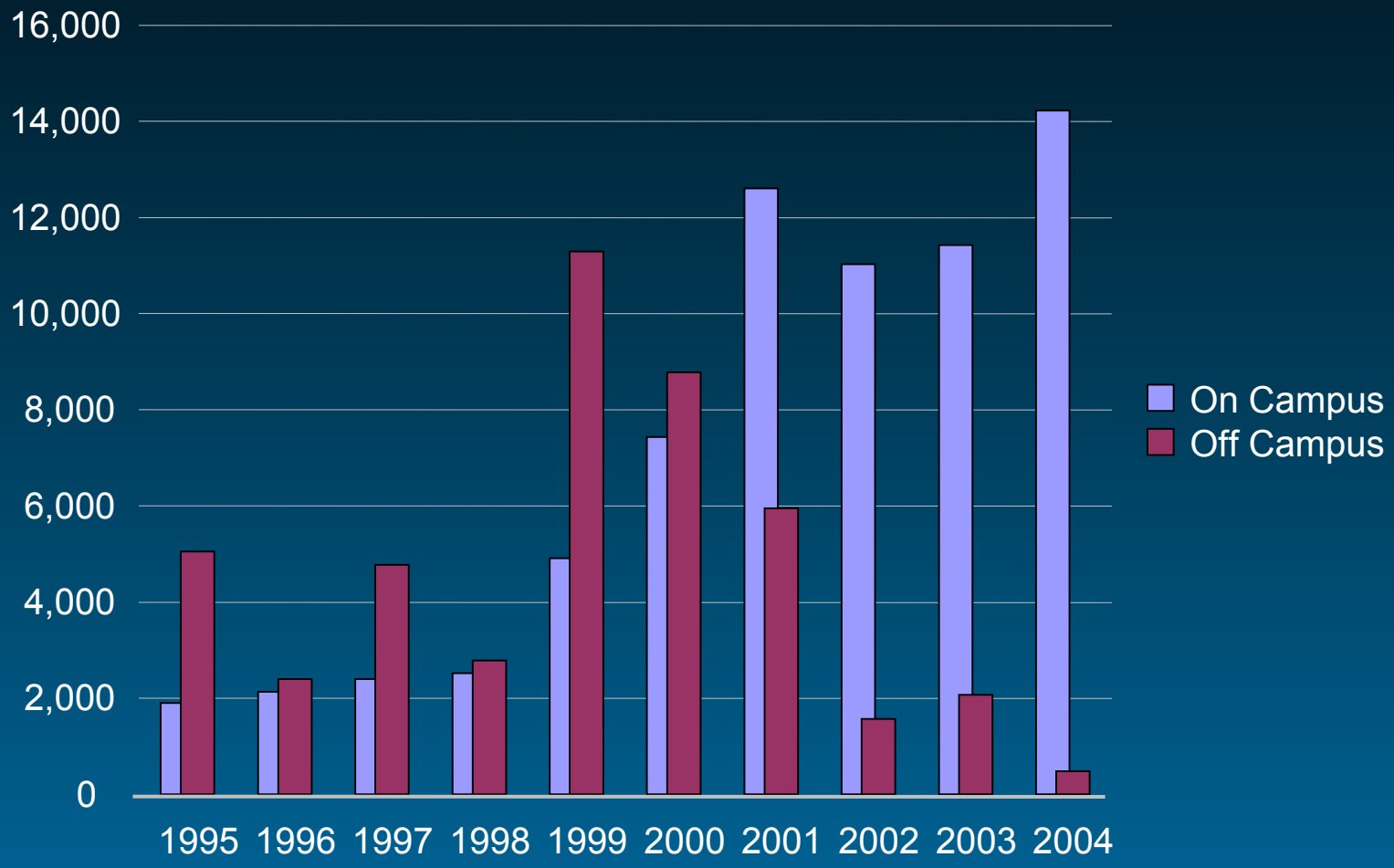
Benchmarking and Trends

Regional Location by Year



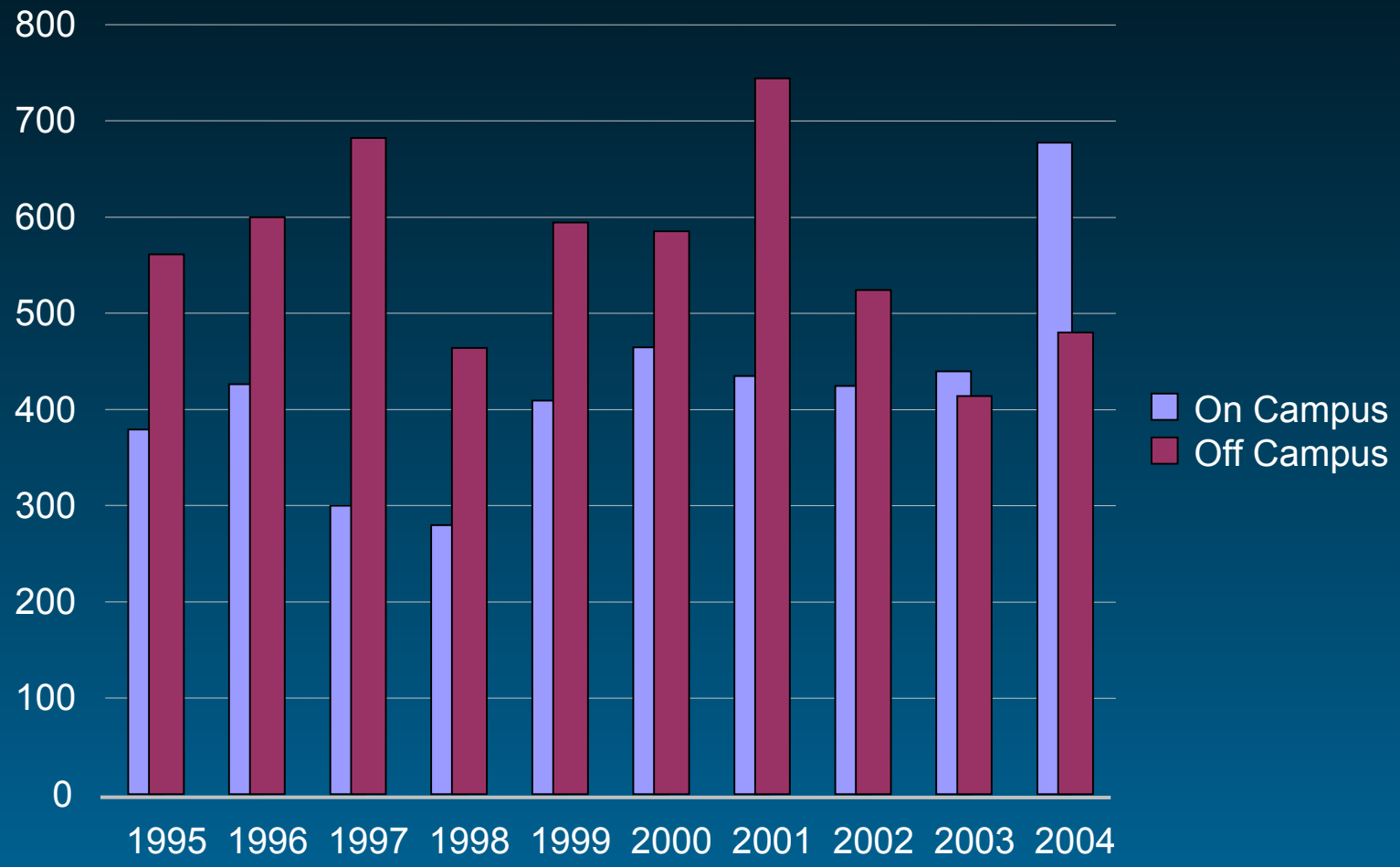
Benchmarking and Trends

Total Beds Delivered



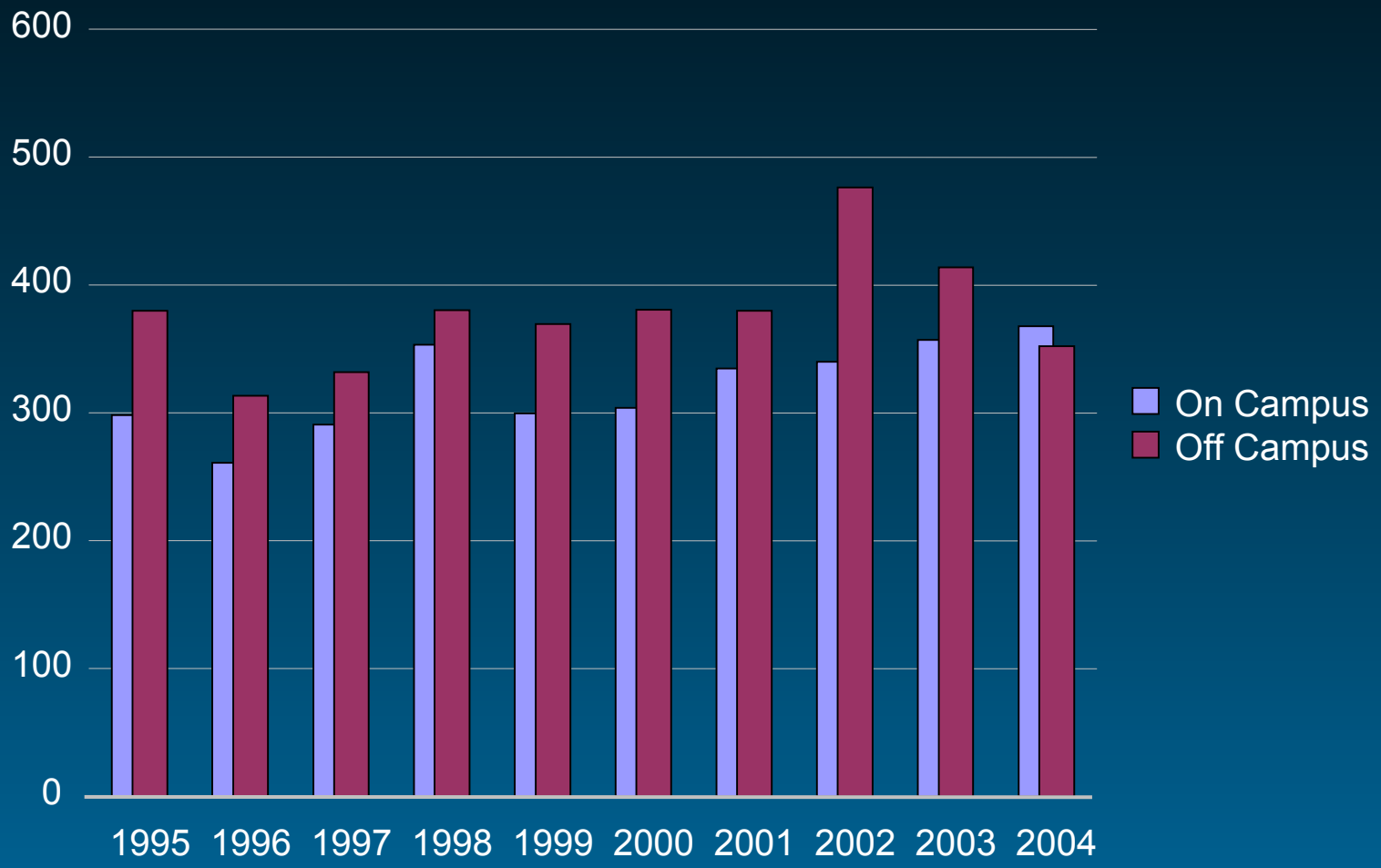
Benchmarking and Trends

Average Number of Beds per Project



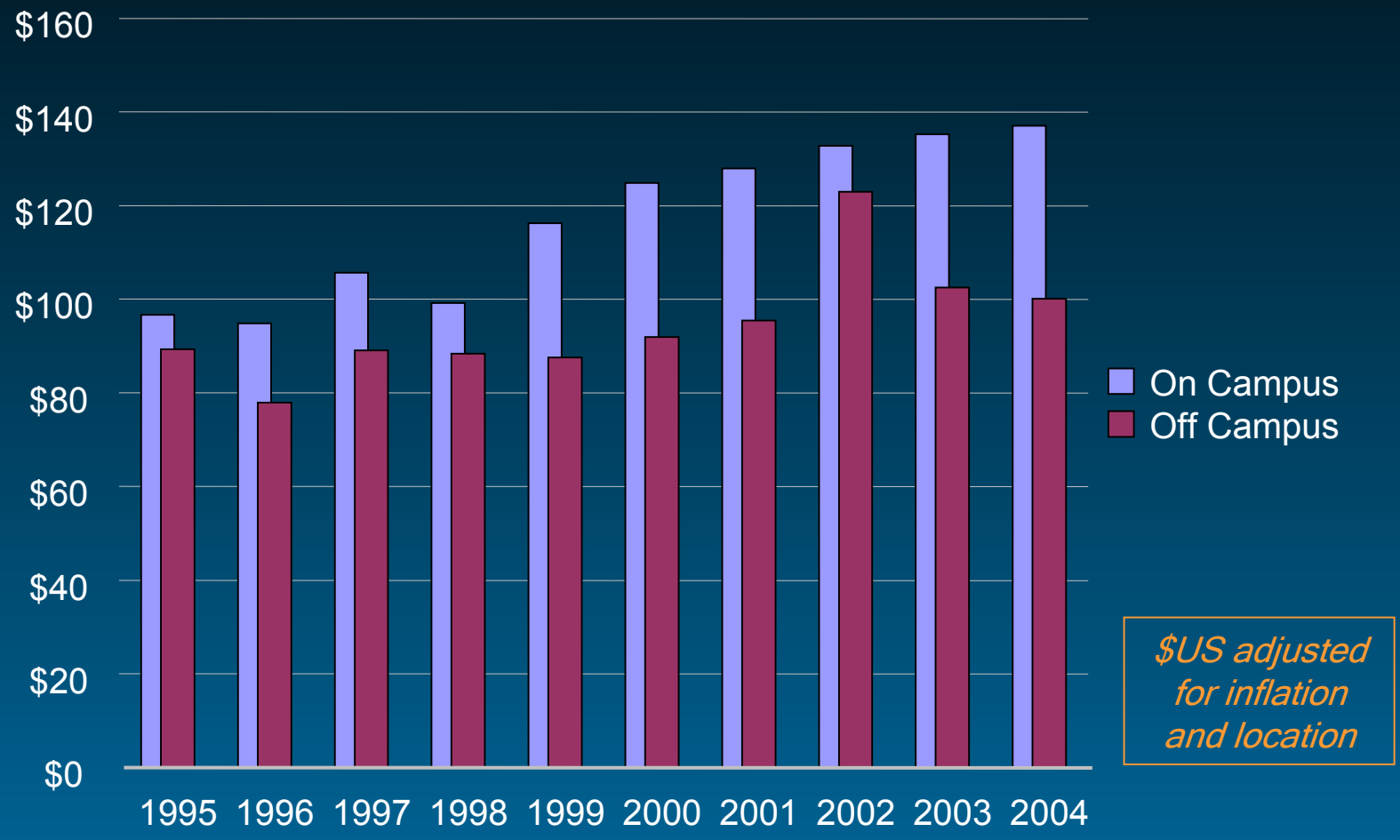
Benchmarking and Trends

Average Gross Area per Bed



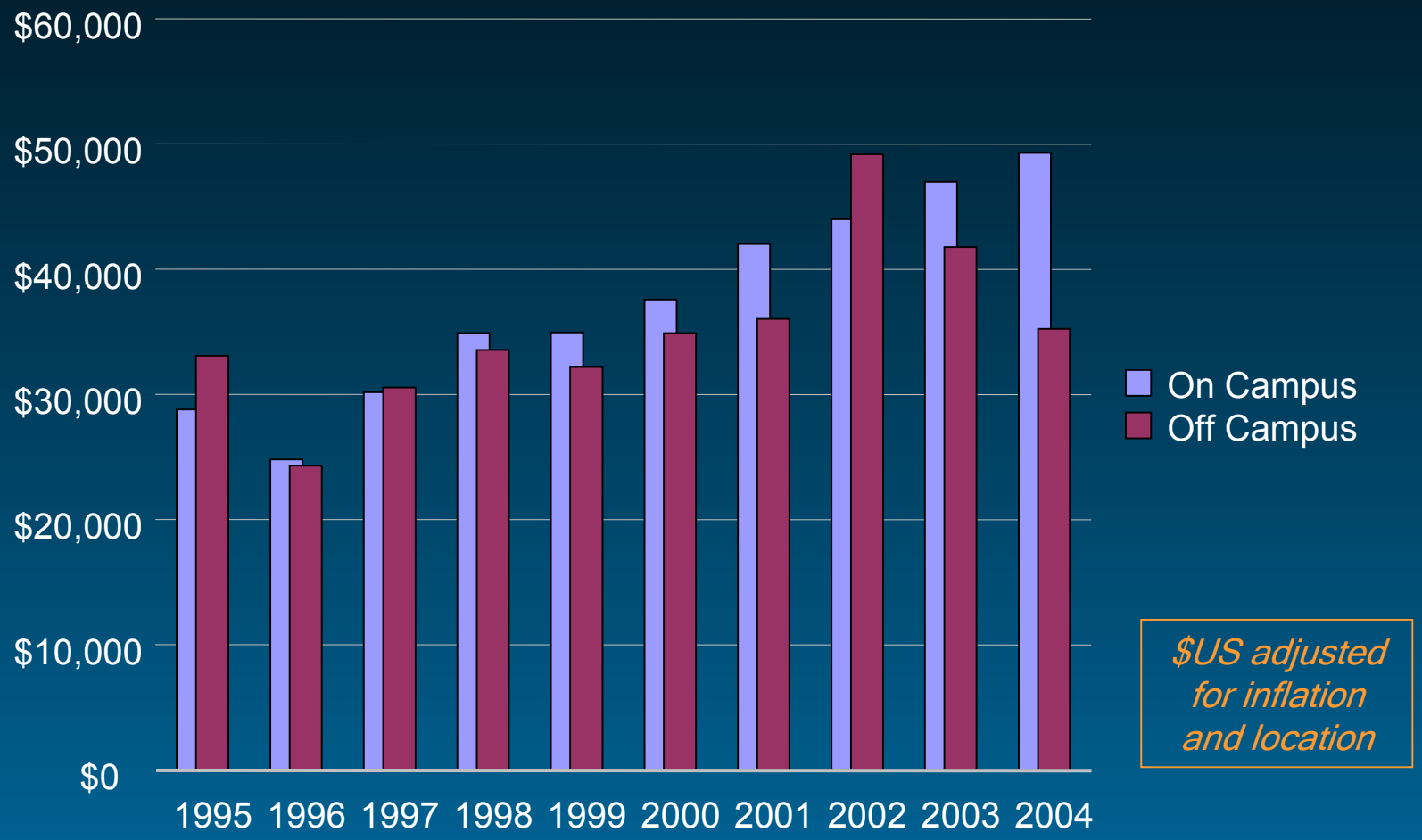
Benchmarking and Trends

Average Total Cost per GSF



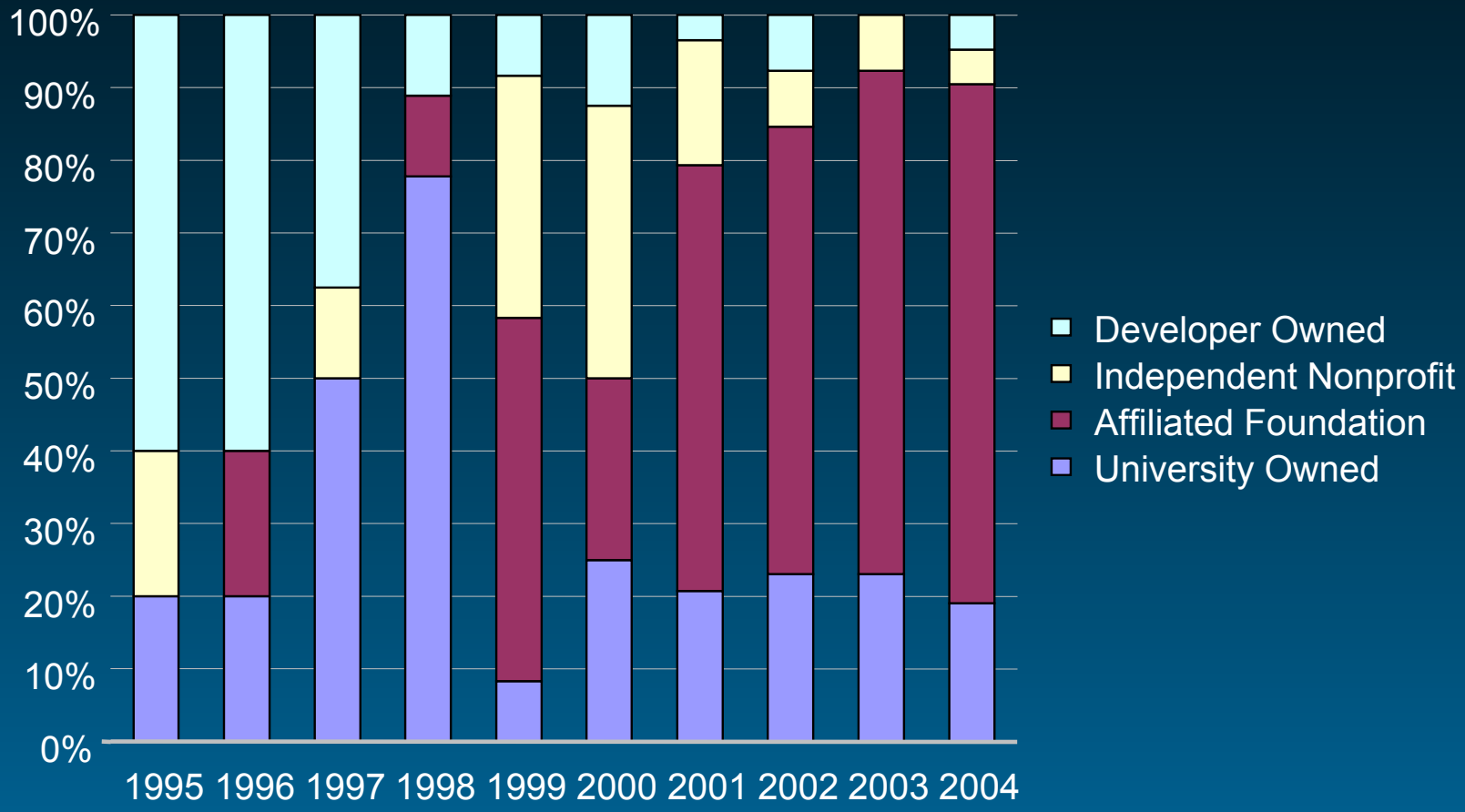
Benchmarking and Trends

Average Total Cost per Bed



Benchmarking and Trends

On-campus Projects by Structure



Summary

Economics of Partnership Structures

- The market determines the rent levels; which must cover operating cost, debt service and reserves
- As the cost of operations and financing increase, quality and/or size decrease
- Institutions have advantage of low cost of debt and--all else equal--can build higher quality
- Private sector brings development expertise and efficiencies, which can off-set higher debt

Summary

Developer Selection

- Control of project requires specification of minimum requirements and constraints
- Project specifications should consider
  - Market Study — *Preferences, demand, rent structure*
  - Program — *Beds, areas, outline specifications*
  - Financial Plan — *Budget, operating requirements*
  - Partnership Structure — *Agreements and ground lease*
- Success of selection process depends on the sharing of project specifications and dialogue with the developers

Summary

Benchmarking and Trends

- Developers of student housing are shifting emphasis to on-campus projects
- The 10-year average cost per bed and per square foot has out-paced the rate of inflation
- The predominant structure has shifted from developer-owned to foundation-owned
- Driven by market rent, the cost per bed is similar for both on- and off-campus projects
  - Off-campus project have more area per bed
  - On-campus projects cost more per square foot

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