

## AUA Case Study 2001

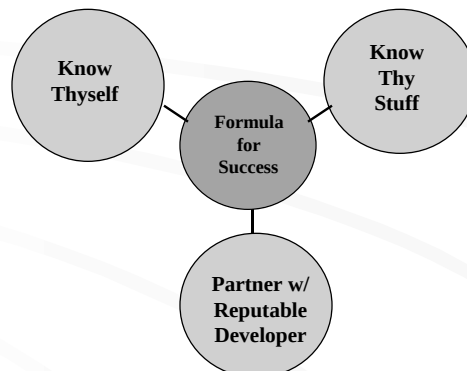


Developer Built Student Housing



## Three Main Points

- Know Thyself
- Know Thy Stuff
- Partner with a reputable developer



## Know Thyself

- What is Developer- Built Student Housing?

- 30-Year housing
- Formulaic, with modest adaptations
- Typically apartment style
- Program space???



## Know Thyself

- Why pursue it?

- Σ Faster
- Σ Lower cost
- Σ Experience
- Σ Off balance sheet
  - Off credit
- Σ Greater flexibility
  - Market rate quality
- Σ Better value

### VCU

- Σ 400 more beds by 2000
- Σ No impact on debt capacity
  - Apartments preferred
  - Alleviates pressures on surrounding communities
  - Revitalizes Broad Street



# Know Thyself

- How critical is housing and residence life to your mission?

Σ Implications for partnering in development:

- Type/quality of construction
- Unit configurations
- Common space

Σ Implications for partnering in management:

- Responsibility/liability
- Judicial issues
- Residential life program

Third wave of privatization

VC

U

1996

- Postal/Printing
- Housekeeping

Back of House

- Bookstores
- Food service

Support

1997

- Housing
- Parking

Academic & Student Affairs

1998

**Core Mission**

# Know Thyself

- What is your institutional culture?

Σ Risk tolerance

Σ Divergent objectives

- Liability
- Code of Conduct
- Resident assistants
- Activities programs

Traditional Role

Current Thinking

**Education  
Nurturing**

**Efficiency  
Profit**

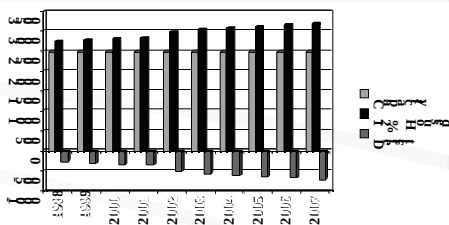


# Know Thy Stuff

|                                        |                              |                      |
|----------------------------------------|------------------------------|----------------------|
| Program<br>Prepare Cost                | expert<br>Become an          | Build                |
| Outline scope                          | Assess interest<br>Community | Design               |
| analysis<br>Identify<br>regain insight | Conduct market               | Establish<br>Funding |
| Do a<br>housing plan<br>Comprehensive  | method<br>Choose funding     | Select<br>Developer  |

## Comprehensive Housing Plan

- What is a comprehensive housing plan?
- Provides roadmap for multi-year reinvestment
  - Addresses deferred maintenance/modernization
  - Recruitment/ retention tool
  - Projects bed requirements, reinvestment costs, phasing, funding
- Sets priorities for renovation/ reconfiguration/new construction
- Identifies role(s) private partnering may play in addressing portions of overall housing system requirements



VCU

Σ Turning students away  
Σ Adding 2,000 out-of-state students by year 2005

# Conduct Market Analysis

- Market Analysis should:

- Quantify demand, rents, unit types, amenities
- Required by bond issuers to demonstrate viability
- Prepared by independent 3rd party for credibility
- Mix of qualitative
  - (Focus groups/ interviews)
- ...and quantitative
  - (Survey research, market comparables)
- Accompanied by financial feasibility assessment



## VCU

- Rent rate
- Housing Amenities
- Retail type
- Prepared by developer
- Focus groups
- Gut instinct

# Outline Scope of Services

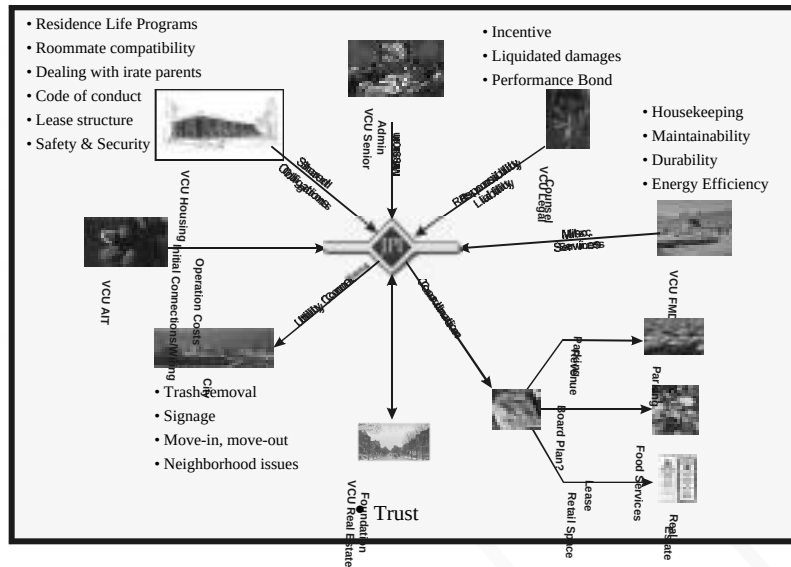
## Options:

- Development: Fee developer vs. equity developer
- Financing
  - Traditional debt financing
  - Off-balance sheet/off credit
- Ownership and management
  - University vs. separate non-profit (ground lease) developer
  - What most schools choose

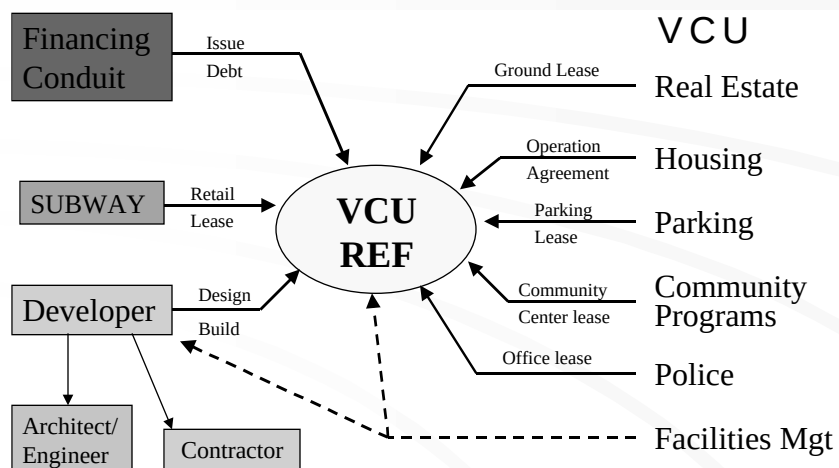
## VCU

- Design-Build for fee
  - VCU owns land
  - VCU-REF finances and owns buildings
  - Developer designs & builds
  - VCU Housing operates apt.s
  - VCU Business Services operates retail & parking
  - VCU Community Programs & Police lease from VCUREF
  - Retail tenant leases from REF

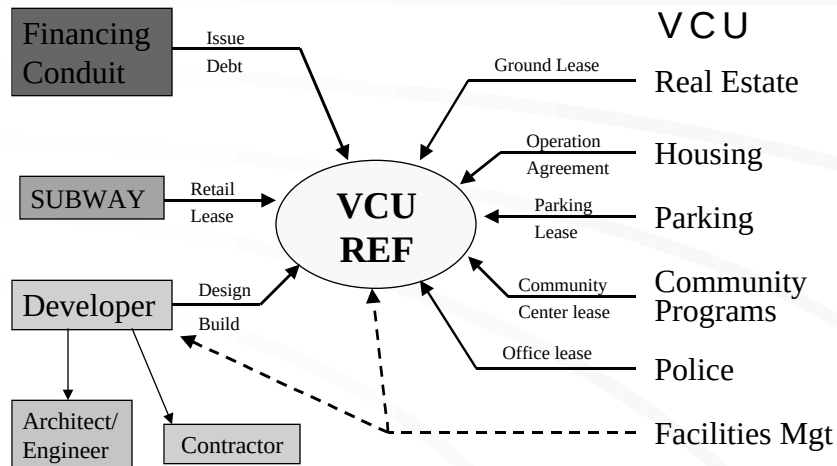
# VCU operations issues



# VCU Contract Relationships



## VCU Contract Relationships

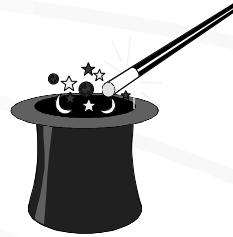


## Prepare Cost Proforma

- **Key Issues:**
    - Target rent rate
    - Ad valorem taxes
    - Tax exempt bonds
    - Pass-through charges
    - Operating costs
    - Residence life program costs
  - **VCU**
    - **FIRST COST**
      - Construction
      - Voice-data-video infrastructure
      - Pre-development feasibility
      - Developer fee
      - Design fee
      - Building Permit
      - Furnishings/Equipment
      - Developer contingency
      - Owner contingency
    - **OPERATING COSTS**
      - Operation & Maintenance
      - Maintenance reserve
      - Taxes, Debt service, Bond coverage
    - **REVENUE**
      - Line of credit
      - Rent
- ☞ It floats like a butterfly
- ☞ Institute of Real Estate Mgt

## Choose funding method

- University cash
- Private Gifts
- Revenue/GO Bonds
- Tax exempt bonds
  - University foundation
  - Other foundations
  - Bond issuing authority



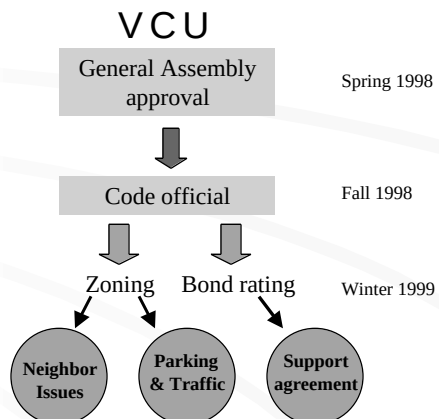
### VCU

Σ Investment grade tax exempt bonds through VCUREF & IDA

🔊 Decide bond rating grade early

## Identify regulatory oversight

- Legal authority
- Building code official
- Bond rating houses
  - Support agreement
- Local zoning boards
  - Special Use Permit
- Fair Housing Act
- Your governing board



🔊 Get concept “Buy-In” early



[illegible]

- Learn community concerns
  - Traffic and Parking
  - Noise
  - Move-in, move-out
  - Trash pick-up
  - Appearance/screening
  - Local developer interest

$$\begin{aligned} & \sum \text{Carver neighborhood} \\ & \sum \text{CCI Doctors} \end{aligned}$$


## Become an expert

- Find veterans

- Urban Land Institute
- Private apartment management firms
- Higher Education Owners
- Housing authorities
- Institute of Real Estate Management
- Professional organizations



### VCU

- MSC Inc.
- Advantis

## You be the Owner

|             |                  |             |         |                |
|-------------|------------------|-------------|---------|----------------|
| fab         | Pre-Construction | 3 stories   | sidings | Furnished Apts |
| vs 12       | 13R              | System      | Tyvek   |                |
| Self Rating | SEIR             | Rating      |         |                |
| Bond        | Liquidated       | Performance | of      |                |

## Partner with a reputable developer

|                                                         |                            |                                               |                                            |                          |                                                 |
|---------------------------------------------------------|----------------------------|-----------------------------------------------|--------------------------------------------|--------------------------|-------------------------------------------------|
| Do a<br>housing plan<br>Comprehensive<br>Choose funding | method<br>Select developer | analysis<br>Identify<br>regional<br>Establish | Outline of services<br>Community<br>Design | Assess interest<br>Build | Proforma<br>expert<br>Become an<br>Prepare Cost |
|---------------------------------------------------------|----------------------------|-----------------------------------------------|--------------------------------------------|--------------------------|-------------------------------------------------|

## Select a Developer

- Request for Qualifications
- Request for Proposals
  - How detailed? Contents?
- Negotiated contract

### VCU

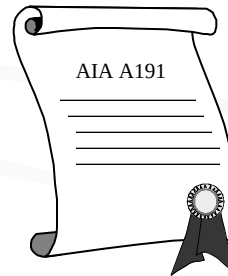
Σ Open ended RFP

- 🔊 Ask around - check references
- 🔊 RFP should reflect level of involvement



## Establish “Forms of Agreement”

- Design/Construction
  - AIA Design-Build A191
  - Start from scratch
- Ground lease
- Parking lease
- Support agreement
- Operating/Maintenance



VCU

- ⌂ Include contract in RFP
- ⌂ Key decisions get fixed early

Σ Design/Build AIA A191  
Σ Others from scratch

## The Story

- Design
- Bidding
- Construction



## Let's get married

- RFP
- Whirlwind tour
- A lot of “firsts”
- Fusion of cultures



- ☞ Pay your own way
- ☞ Maintain objectivity
- ☞ Be flexible



## Name that tune

- Design-Build syndrome
  - One note vs. full score
    - Building permit
    - Ceiling height at retail
    - Dryer vents
    - Brick delivery



- ☞ Be clear on design priorities
- ☞ Full time on site inspector



## Howdy Neighbor

- Special Use Permit
  - Carver Community
  - CCI Doctors
  - City of Richmond
  - VCU
  - City Bus GRTC
- Talk to neighbors early & often



## Different Animal

- Multi-family vs. institutional construction
  - Workmanship
  - Framing method
  - Mechanical/electrical
  - Longevity of building



🔊 Become an expert

## The Formula

- Housing prototype
  - Unit layout
    - Notches, courtyard
  - Materials & systems
    - Brick, heat pumps
  - Construction methods
    - Wood framing
  - Image
    - Prefabrication
- ☞ Listen to the experts
- ☞ Make your own decision



## Promises, Promises

- Price drift
    - Increase of 10%
  - Schedule drift
    - Community partnering
    - Special Use Permit
    - A/E firm changed
  - Unexpected bonuses
- ☞ Be flexible where you can be
- ☞ Be firm where you need to be



## Better, Faster, Cheaper?

- Cheaper? • Construction cost \$70/SF
- Faster? • Planning - 22 months  
• Construction - 12 months
- Better? • "It comes down to issues of quality and control"  
University Business Magazine, Nov/1998



## Dos and Don'ts





# Lessons Learned



## • DO

- Choose an experienced and reputable developer team
- Get ready for alacrity and autonomy
- Anticipate and clear regulatory hurdles early
- Set the quality standards
- Visit with the neighbors
- Your homework up front
- Know your priorities/price



## • DON'T

- Revisit decisions
- Expect a 100-year building
- Consider this process for a project under 200 beds
- Enter into this process without due consideration if housing is mission critical.
- Expect design innovations

# Resources

- Operating costs for multi-family apartments
  - Institute of Real Estate Management
  - Local multi-family developers
  - Urban Land Institute
- Consultants to higher education
  - Biddison Hier
  - Brailsford & Dunleavy
- VCU experience
  - Proforma
  - Support agreement
- Tax-Exempt organizations
  - The University Foundation
  - Collegiate Foundation
- Student Housing Developers
  - JPI Education services
  - Century Development
  - American Campus Communities
  - Capstone Development
  - College Park Communities
  - Ambling Development
  - Cattelus Development Corp.
  - Trammel Crow Higher Ed Services
- Others with experience:
  - Maryland state system MD
  - California state system CA
  - Wingate University NC
  - Texas A&M system, TX
  - Montclair State, NJ

# Articles

- Apartments Replace the Dorm, Neal Templin
  - The Wall Street Journal, October 28, 1998
- Colleges Turn to Private Companies to Build and Run Student Housing, Martin van der Werf
  - The Chronicle of Higher Education, June 11, 1999
- When Dorms Become Their Business, Tom Hier and Gail Biddison
  - Trusteeship, May/June 1996
- Building Boon, Ilyce R. Glink
  - University Business, November/December 1998
- Privatized Housing Moves on Campus, Michael Fickes
  - College Planning and Management, June 1999
- Owners Enjoy Rising Rents, Low Vacancies, John McCloud
  - Apartment Finance Today, July/August 1999