“What happened?”

“The Significant Impact of Recent Changes in Capital Markets on Construction of Higher Ed Facilities”

BJAC U March 15, 2010

BRAILSFORD & DUNLAVEY

BJAC U

Presentation Outline

- Introduction
- What did happen?
- What is going on now?
- History of PPPs
- Future of PPPs
- What is the big picture?
- Discussion

Introduction

Brad Noyes – Vice President, Brailsford & Dunlavey

- Been with the firm since our founding in 1993
- Background in Architecture and Real Estate Development
- Frequent guest lecturer at many national higher education conferences
- Written articles on planning and program management for a number of national publications
- Experience with over 150 higher education facilities projects
    - Over $1 billion of program management and consulting
- Experience with over 50 K-12 facilities projects
    - Over $250 million of program management and consulting

What happened?

Student demographics

- 1997 to 2006:
  - High School Graduates increased 22%
    - Minority graduation rose approximately 49%
  - Total Enrollment increased 22%
    - Undergraduate → 22% increase
    - Graduate → 26% increase
    - Minority enrollment rose approximately 20%
  - Since 2000, developers built 57,000 off-campus beds
    - Additional 23,000 new off-campus beds in 2009

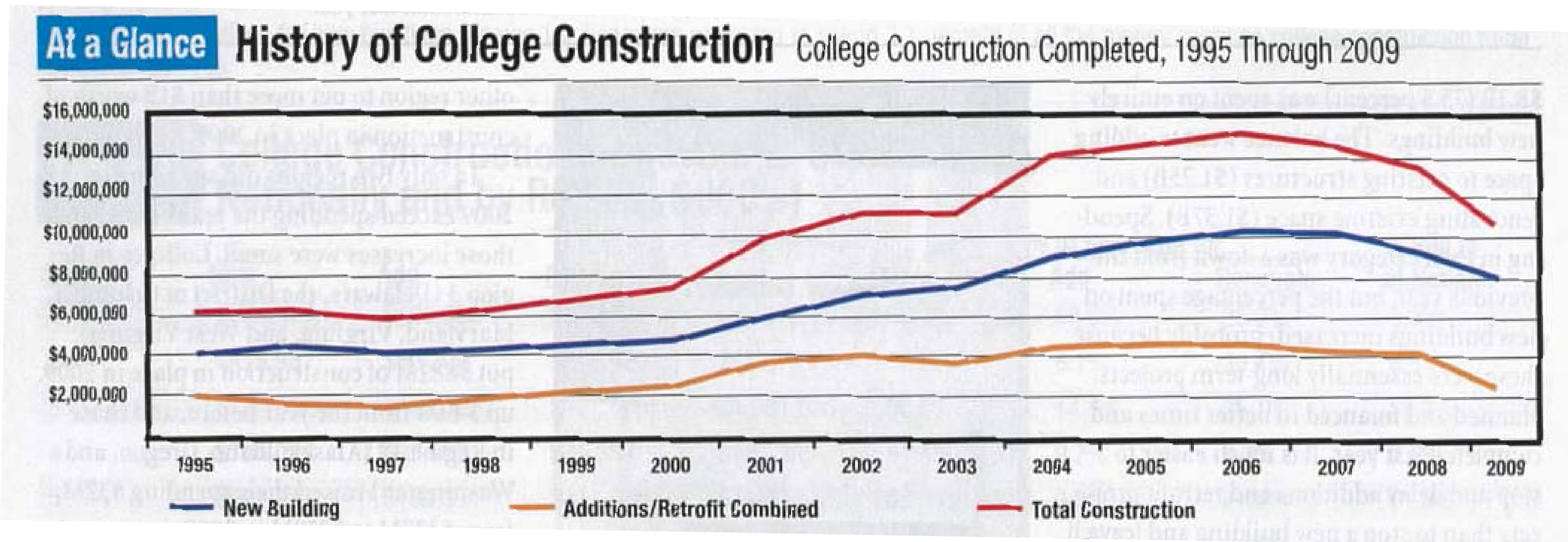
Impact

- Strong demand for higher education and K-12 facilities

US Department of Education – National Center for Education Statistics
“Knocking at the College Door.” March 2008. WICHE.
Marcus & Millichap

What happened?

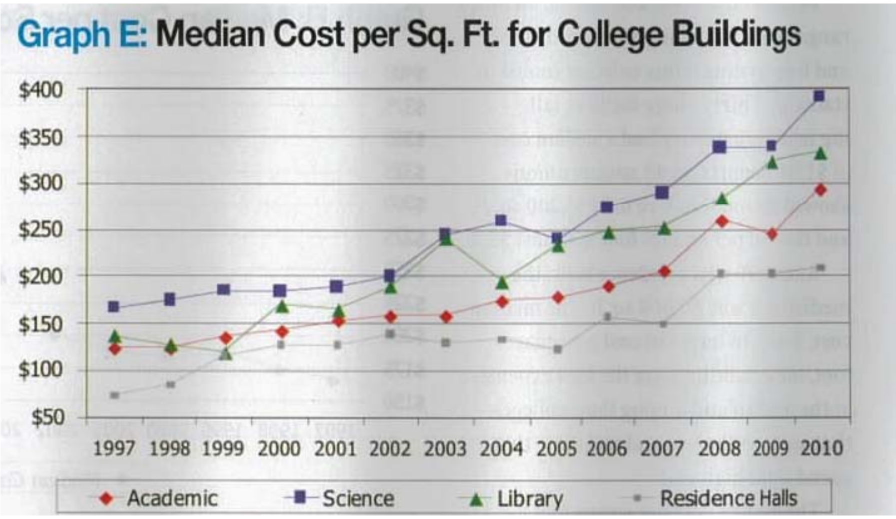
Decreasing higher education construction volume

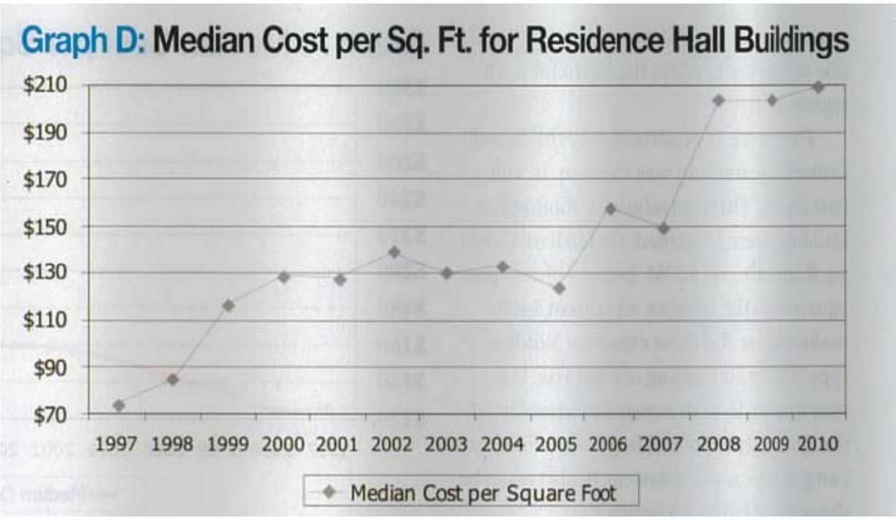


College Planning & Management February 2010
“The 2010 College Construction Annual Report”

What happened?

Cost per SF Remains High





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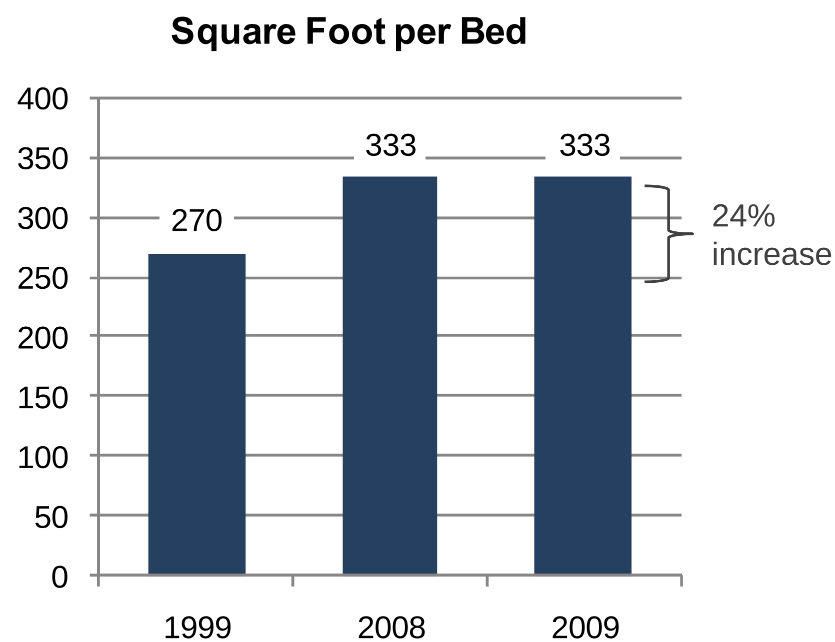
What happened?



- Significant Rise in Construction Cost (until recently)
- Additional square feet per bed

Impact

- Projects much more difficult to pencil

Abramson, Paul. "Living on Campus - Downsizing Residence Halls: Space and Costs." 2009 College Housing Report. www.webCPM.com.

What happened?

More difficult to access capital

- Reduced state and local funding
- No highly rated bond insurers
- Dislocation of the Auction Rate Market
- Reduced fundraising

Impact

- Difficulty funding initial feasibility studies
- Viable projects are finding it difficult to obtain capital

What happened?

Higher cost of capital

- Cost of obtaining a letter of credit
- Average rates on 7 day auctions

  -- January 2008 3.890%

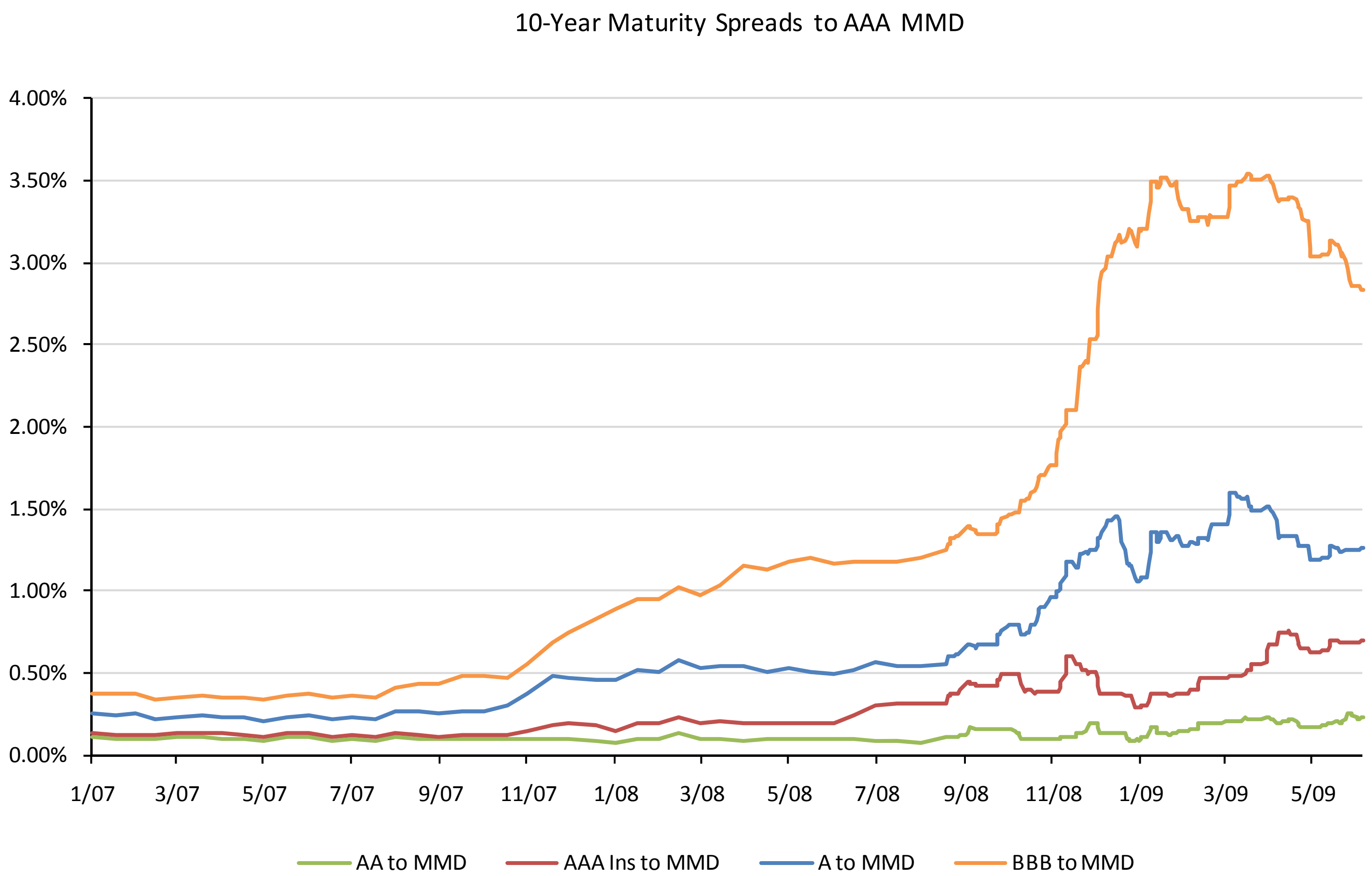
  -- February 2009 6.590%

Impact

- Less money to spend on the project
- More challenging to get projects to pencil

What happened?

Credit Spreads



Source: Morgan Keegan

What is going on now?

Future Student Demographics

- 2007 to 2017:
  - High School Graduates → additional 22,000 students (+1%)
  - Total Enrollment → additional 2.1 million students (+12%)
- Other factors:
  - Undergraduates are enrolling for more than 4 years
  - Rise in non-traditionally aged and international student enrollment
  - Rise in 2-year college and graduate school enrollment
  - Community Colleges have expanded their interest

Impact

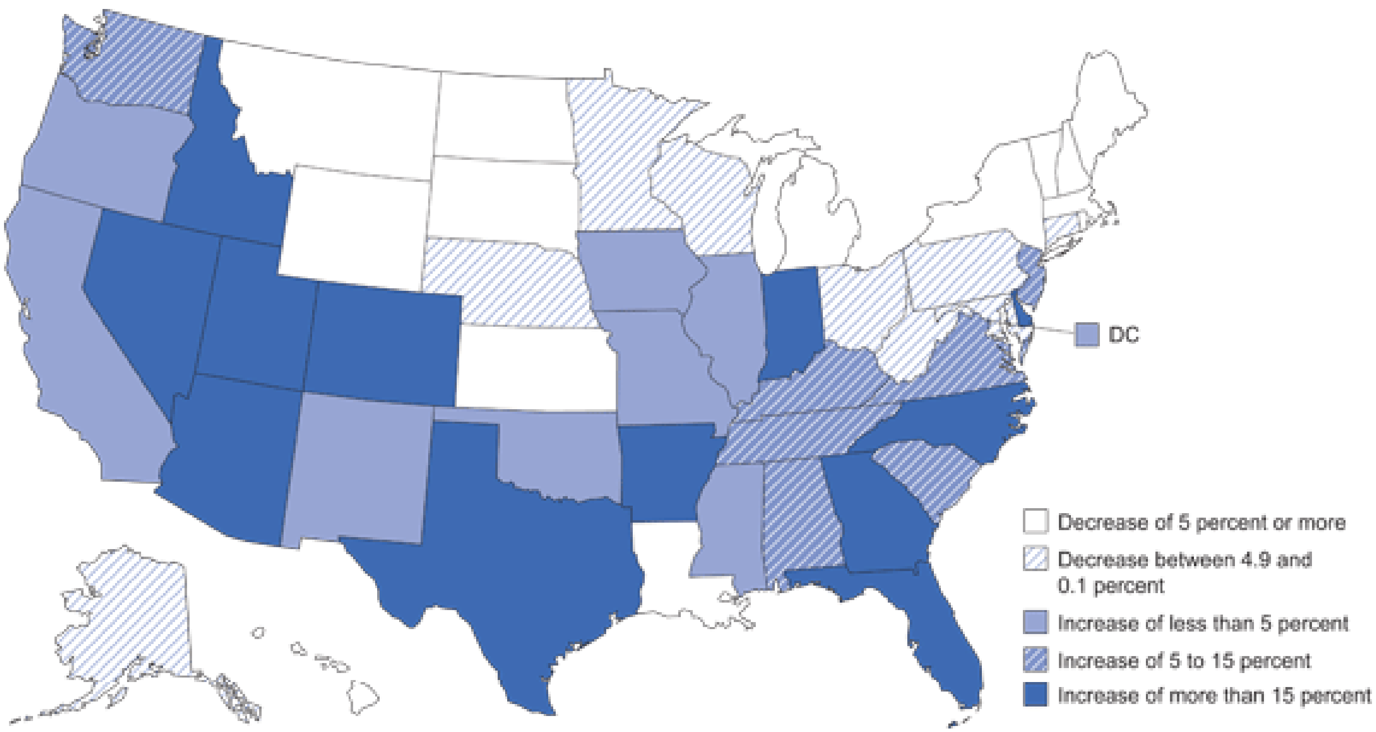
- Demand for higher education and K-12 facilities remains

US Department of Education – National Center for Education Statistics
“Knocking at the College Door.” March 2008. WICHE.

What is going on now?

High School Demographics

Projected percentage change in the number of public high school graduates, by state: 2007–08 through 2017–18 (Source: NCES)



What is going on now?

Types of Buildings

Table 5 Profile of New Buildings Currently Underway

Building Type	Median Size (Sq. Ft.)	Median Cost	Cost per Sq. Ft. Low Quartile	Cost per Sq. Ft. Median	Cost per Sq. Ft. High Quartile	Buildings in Sample
Academic	70,000	$20,000,000	$212.05	$295.00	$410.08	98
Admin/Office	35,000	$19,776,000	$183.16	$398.91	$545.06	13
Early Childhood	15,317	$4,717,942	$208.33	$350.00	$385.89	11
Library	55,000	$24,000,000	$227.69	$333.33	$456.14	11
Performance	89,000	$28,330,000	$269.09	$351.09	$416.67	22
Physical Education	43,000	$13,000,000	$185.00	$274.29	$403.44	33
Residence Halls	80,000	$14,000,000	$172.82	$209.31	$259.26	70
Science	89,500	$30,656,500	$266.15	$391.65	$594.43	86
Student Union	85,200	$31,000,000	$233.75	$275.86	$446.60	43
Technology	52,448	$11,750,000	$181.41	$225.38	$514.21	16

37%

To read this table: The median academic building in this sample of buildings recently completed or currently being constructed will contain 70,000 square feet and will cost $20M. The median cost will be $295 per square foot. One quarter of the academic buildings will cost $212.05 per square foot or less. At the other end of the scale, one out of four academic buildings will cost $410.08 per square foot or more. This information was gathered from a sample of 98 academic buildings completed in 2009 or currently under construction.

College Planning & Management February 2010
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What is going on now?

Obama Administration's Education Plan

- Increase access to higher education
  - Pell Grants → increased $500 to $5,350
  - Tax Credits → new $2,500 credit for 4-year college tuition
  - Modernize and Expand the Perkins Loan
    - Giving access to 2.7 million additional students
- Make US higher education #1 in world graduation rate by 2020.
    - Currently ranked 15th in the world
    - Graduate 18 out of every 100 (compared to 26/100)

US Department of Education.
National Report Card on Higher Education 2008

What is going on now?

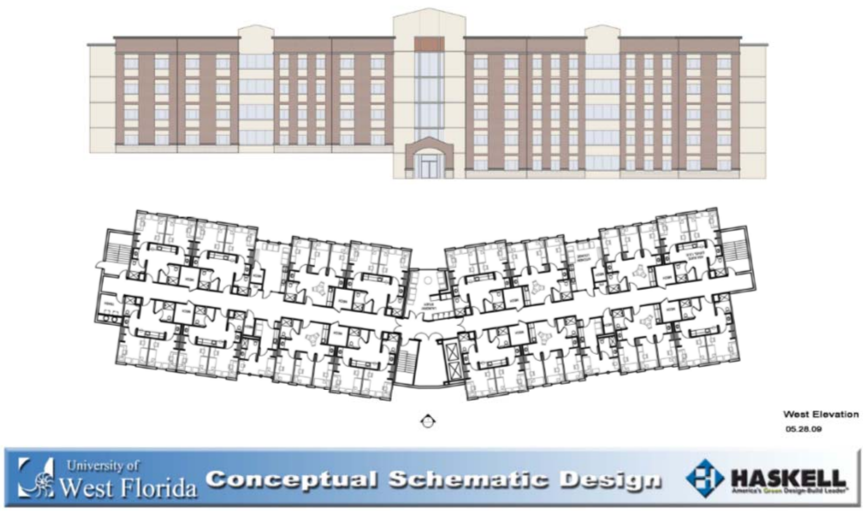
Economic Stimulus (ARRA 2009)

- Build America Bonds
  - Taxable governmental bonds
  - Federal subsidy → tax credits equal to 35% of total coupon interest
  - $55 billion to Dec 1, 2009
  - UVa and University of Minn. were among the first issuers
- Bank Qualified – Disintermediation
  - Lower interest rate, no underwriting fees, no offering documents, and reduced cost of issuance
  - Banks typically hold on to debt
  - Tax benefit to banks
  - Maximum $30 million
- Both can be issued in 2009 and 2010

What is going on now?

University of West Florida

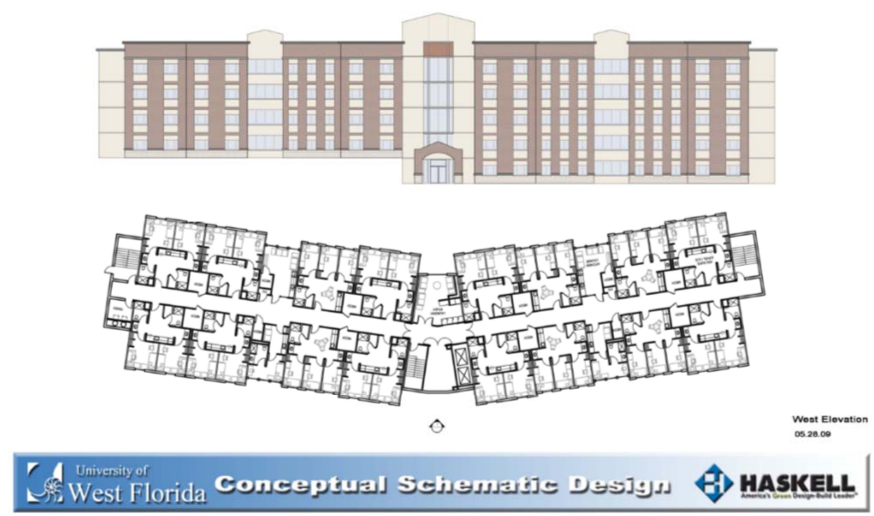
- 10,000 Students
- 250 beds
- 65,000 GSF
- Begin construction June 2009
- Finish construction July 2010
- RFP in 2009
- Obtained a 5.09% fixed rate 20 year Bank Qualified Loan



What is going on now?

Coastal Carolina University

- Use of CCU's Student Housing Foundation
- 8,300 Students
- Purchase of existing 1,092 beds
- Instituted sophomore live-on requirement
- Used $52 million tax-exempt bond issue

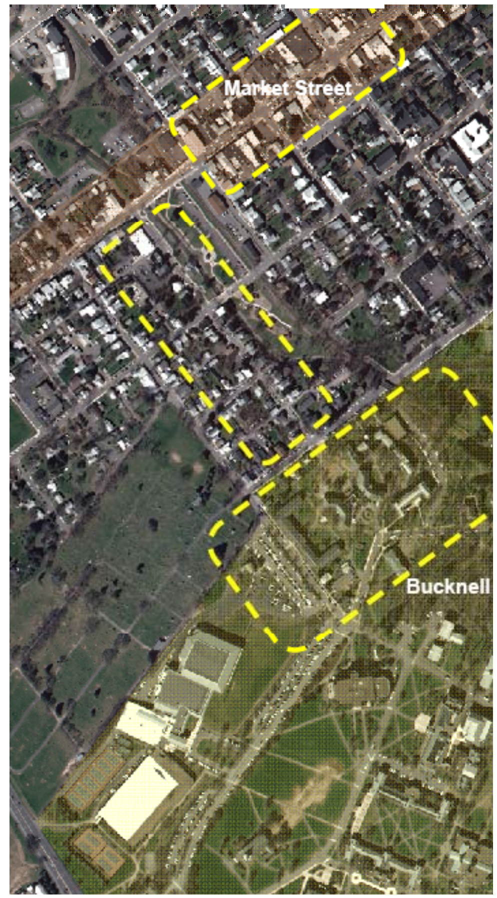


What is going on now?

Bucknell University Village

- Leadership provided by Bucknell Board and Senior Administration
- Partnerships with private developers, the State of Pennsylvania and the Federal Government
- Long term phasing

Phase IA	
Bookstore	\$10M to \$12M
Inn and Business Center	\$20M to \$23M
Parking Structures	\$12M to \$15M
Administrative Offices	\$8M to \$10M
Phase IA Subtotal:	**\$50M to \$60M**
Phase IB	
New Student Apartments	\$25M to \$30M
Regional Arts Center	\$10M to \$13M
Workforce Housing Program	\$1M to \$2M
Theater Rehabilitation	\$4M to \$6M
Phase I Total:	**\$90M to \$111M**



History of PPPs

Pre 1990's

- Public-Private Partnerships
  - More Limited University involvement in the beginning
  - Adjacent to campus or farther off-campus
  - "Developer Quality" Building:
    - Not 100 year standard
  - Evolved to meet housing demand quickly
  - Funded by private debt and equity
  - Early projects- Portland State University, UT San Antonio

History of PPPs

1990's – Financials

- Foundation as Owner
  - University or Non-affiliated Foundation
  - Utilization of Tax-exempt debt
  - Lower cost of capital & often no property taxes
- Off-balance sheet designation (considered off-credit through early 2000's)
- Non-recourse projects
- Bond Insurance
- 100% debt financed
- Privately managed residence halls
- First rated deal – University of Central Oklahoma
  - Set precedence of obtaining investment grading

History of PPPs

2000 to Present

- Student Housing has become big business
  - REITs began to enter the market
  - ACC’s purchase of GMH for $1.2B
- Residence Hall → Amenity Rich
  - Prevalence of apartment buildings
  - Increased luxury amenities
  - Increased social interaction

History of PPPs

Buildings 1-7, University of Maryland College Park

- 7 phases 2001-2010
- Budget: $143,760,000
- Size: 2,192 Beds
- Composite Concrete and Steel Structure
- Financing: Tax Exempt Bonds
- Management: Capstone-Facilities UMD- Res Life

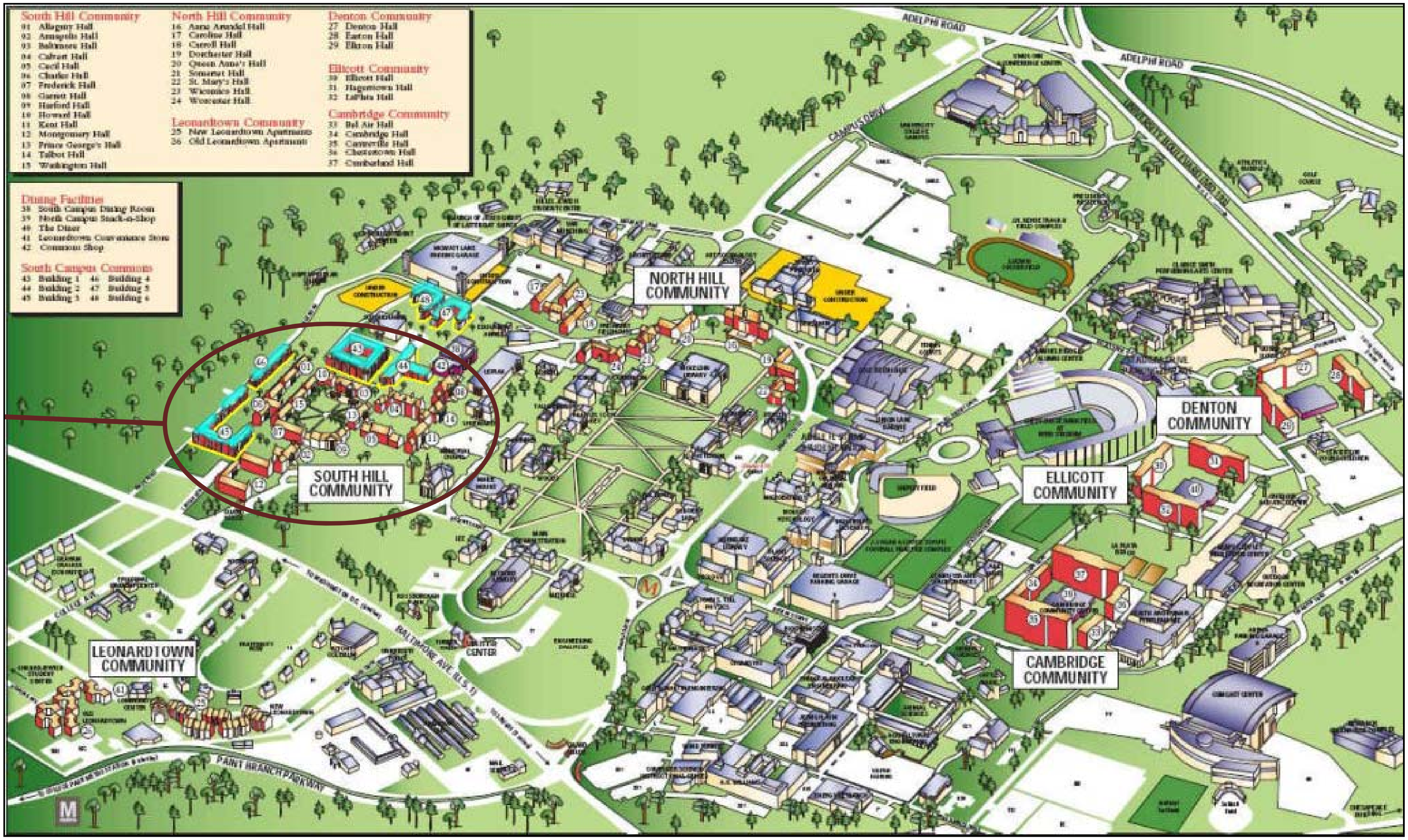
History of PPPs

Courtesy of Capstone Development Corporation

History of PPPs

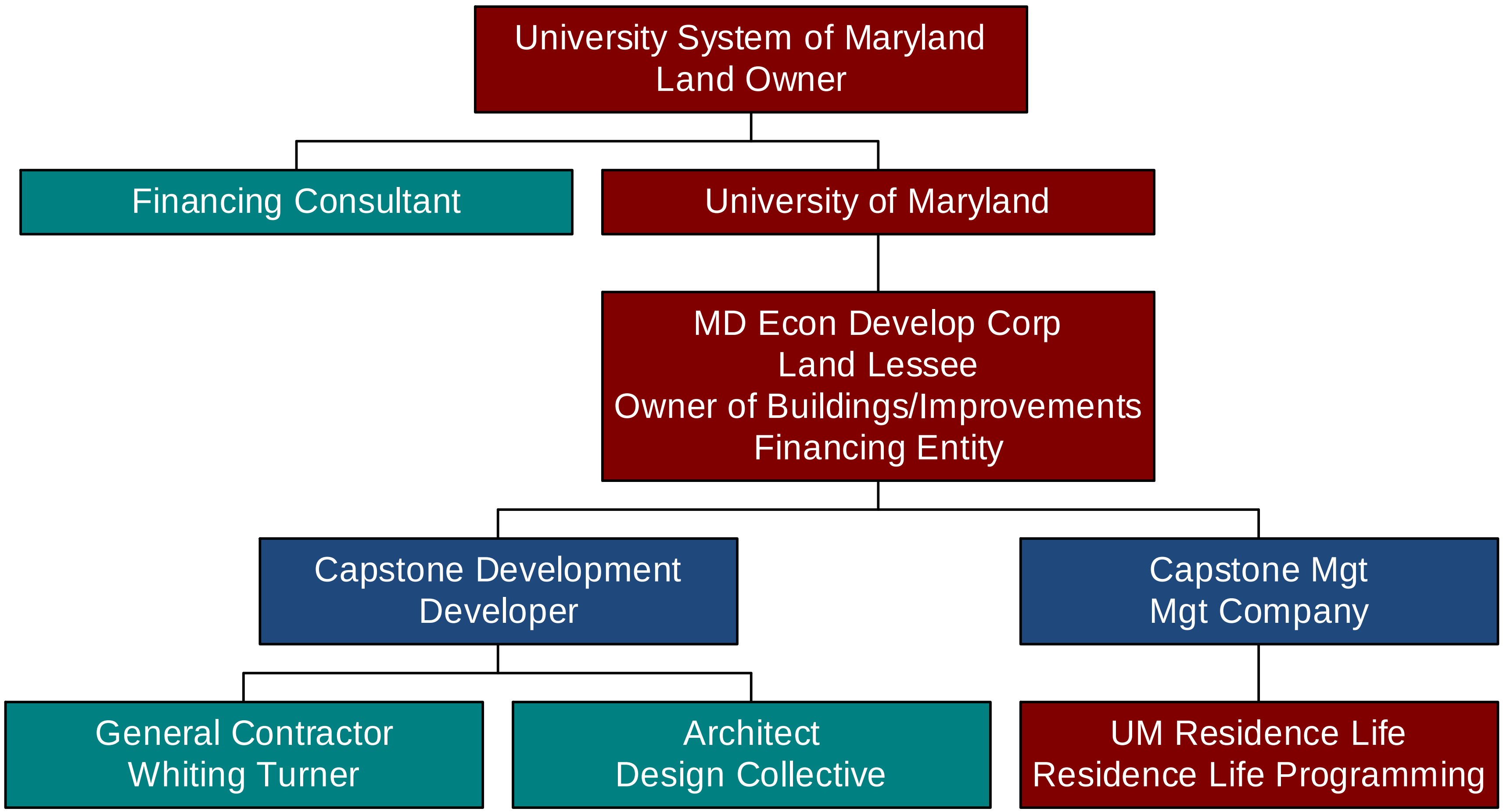
University of Maryland College Park – South Campus Commons

South Campus Commons

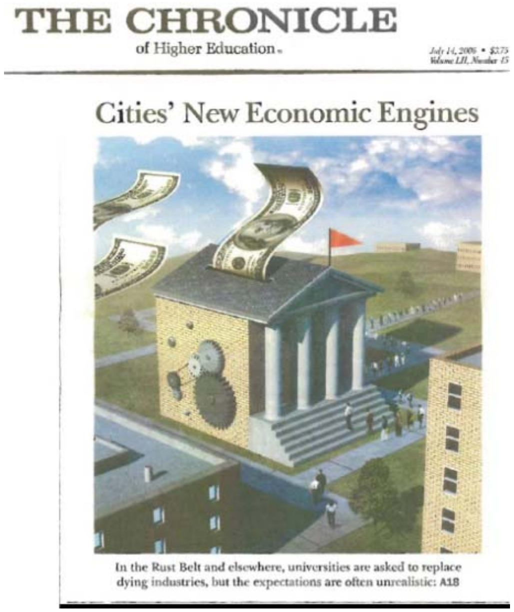


History of PPPs

University of Maryland
Public Private Partnerships



The Future of PPPs

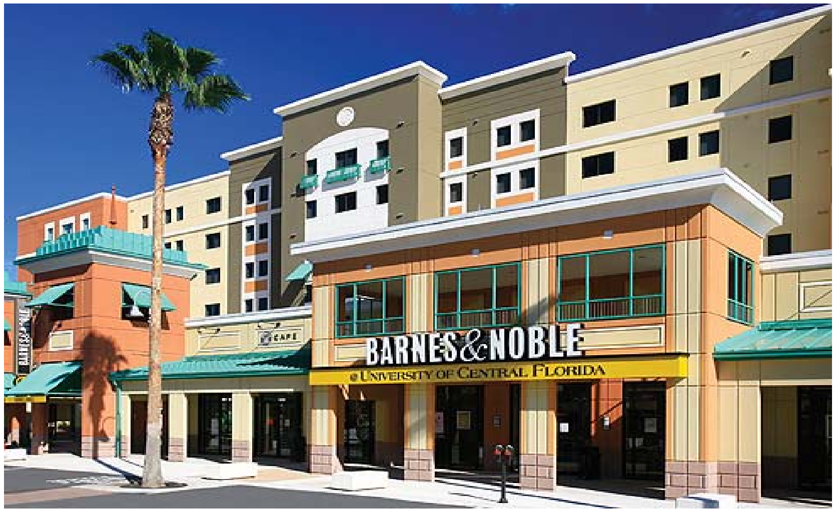

THE CHRONICLE
of Higher Education

Cities' New Economic Engines

In the Rust Belt and elsewhere, universities are asked to replace dying industries, but the expectations are often unrealistic: A18

Mixed Use / New Urbanism

- Walkable Neighborhoods
- Live / Work / Play
- All daily services within 5 minutes
- Housing above Retail / Rec. / Dining
- Universities as catalysts for economic development



The Future of PPPs

Multi-Institution/Consortia of Student Housing

- University Center – Chicago, IL
- University Heights – Albany, NY
- University Centre – Newark, NJ
- CUNY-Towers – New York City, NY
- Towers at University Center – Hyattsville, MD
- Metropointe – Atlanta, GA
- 100 10th Street – Atlanta, GA


University Centre


Towers at University Center


Metropointe

The Future of PPPs

Maybe Off Balance Sheet but NOT Off Credit*

- FASB Statement #13 – Operating Lease Criteria vs. Capital Lease Designation
  1. Transfer of title
  2. Bargain purchase option
  3. 75% of useful life
  4. 90% PV of future minimum lease payments

- FASB Statement #98 - Real Estate Sale/Leaseback
- GASB 39 (Consolidating Affiliated Entities)

***Campus should seek advice from its Accountant - particularly its Auditors**

The Future of PPPs

High University Control and Less Risk

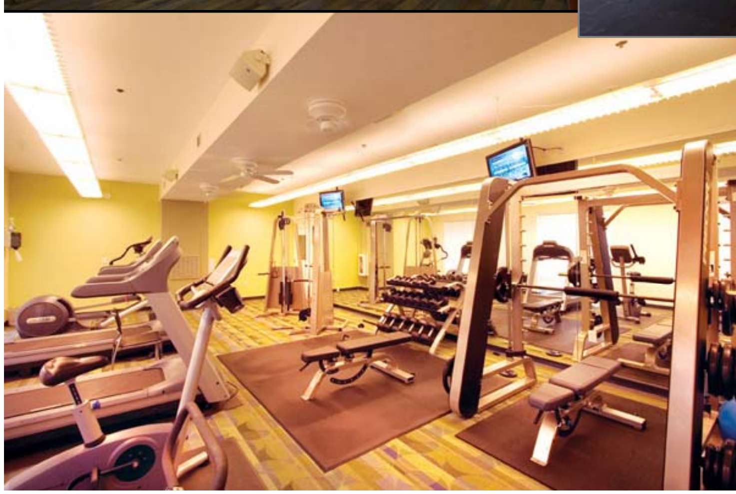
Less University Control and Higher Risk

Free $	**State $**	**Fee Developer $**	**Private Developer $**
Named Campus Building via Donation or Grant	On Campus Building via Bond Capacity	Campus Edge Housing via Project Finance 100% Tax Exempt Bonds	Adjacent to Campus Mixed-Use Project via Financing with Taxable Bonds and/or Traditional Financing and Equity









What is the big picture?

- Underlying demand and available capital remain
- Many past funding approaches are not currently available
- New funding approaches are available but complex
- Many PPP projects cannot be financed today due to required rents
- Many new PPP projects require partnerships
- New projects can be planned now anticipating future financing
- Getting projects to pencil requires discipline and defined process
- Feasibility study and financial structuring are absolutely critical

Discussion

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Follow up information:
www.facilityplanners.com

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