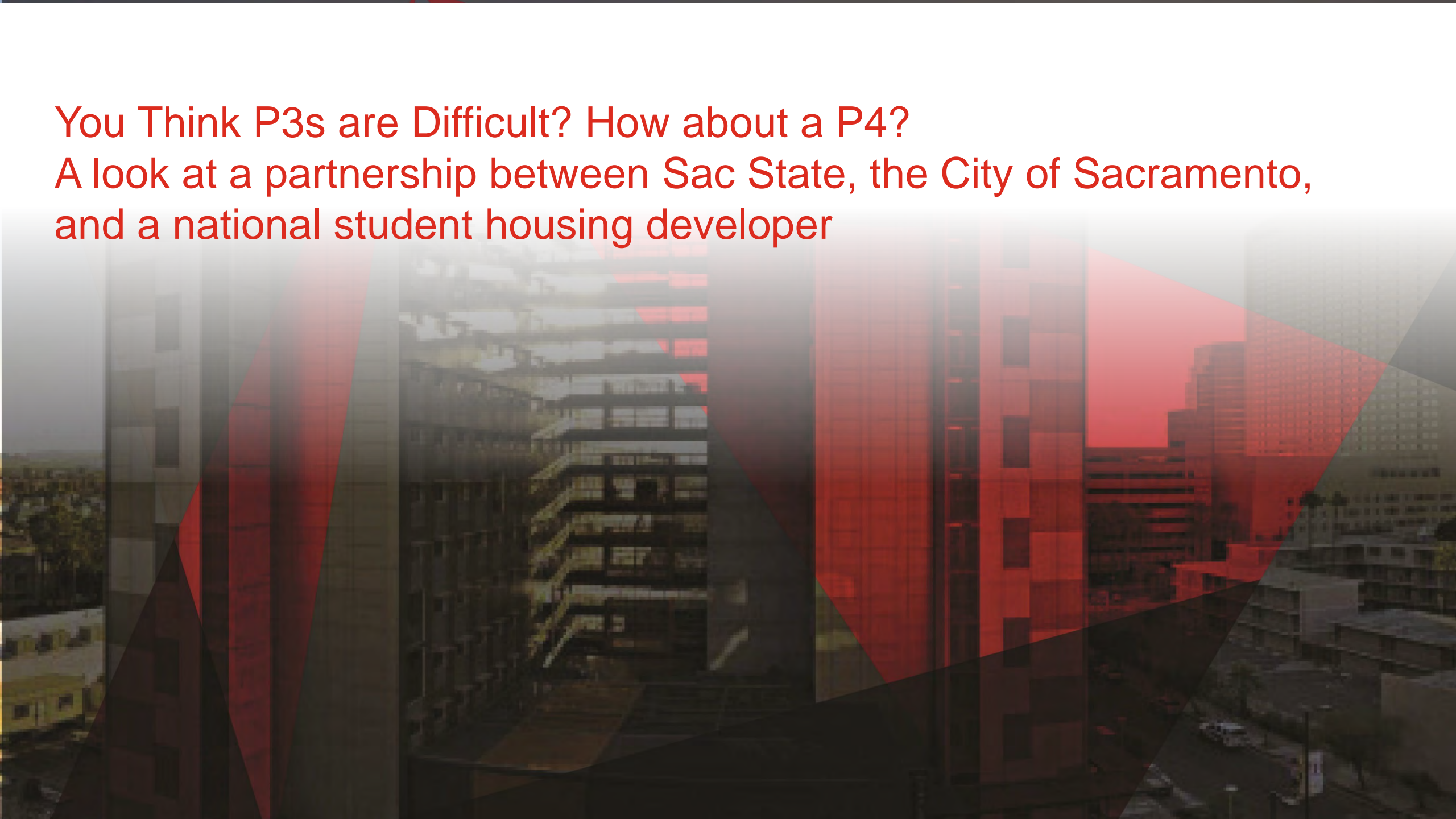


You Think P3s are Difficult? How about a P4?

A look at a partnership between Sac State, the City of Sacramento, and a national student housing developer



AGENDA

1. Panel Introduction
2. Sacramento State
3. The Opportunity
4. Campus Needs & Goals
5. Project Approach
6. The Ps in P4
7. Lessons Learned

Panel Introduction



Jim Reinhart
Executive Director
University Enterprises, Inc.



Francis Freire
Director, Real Estate Development
The California State University



Matt Bohannon
Vice President
Brailsford & Dunlavey



Kim Wright
Senior Associate
Brailsford & Dunlavey

Sacramento State

Campus Vision

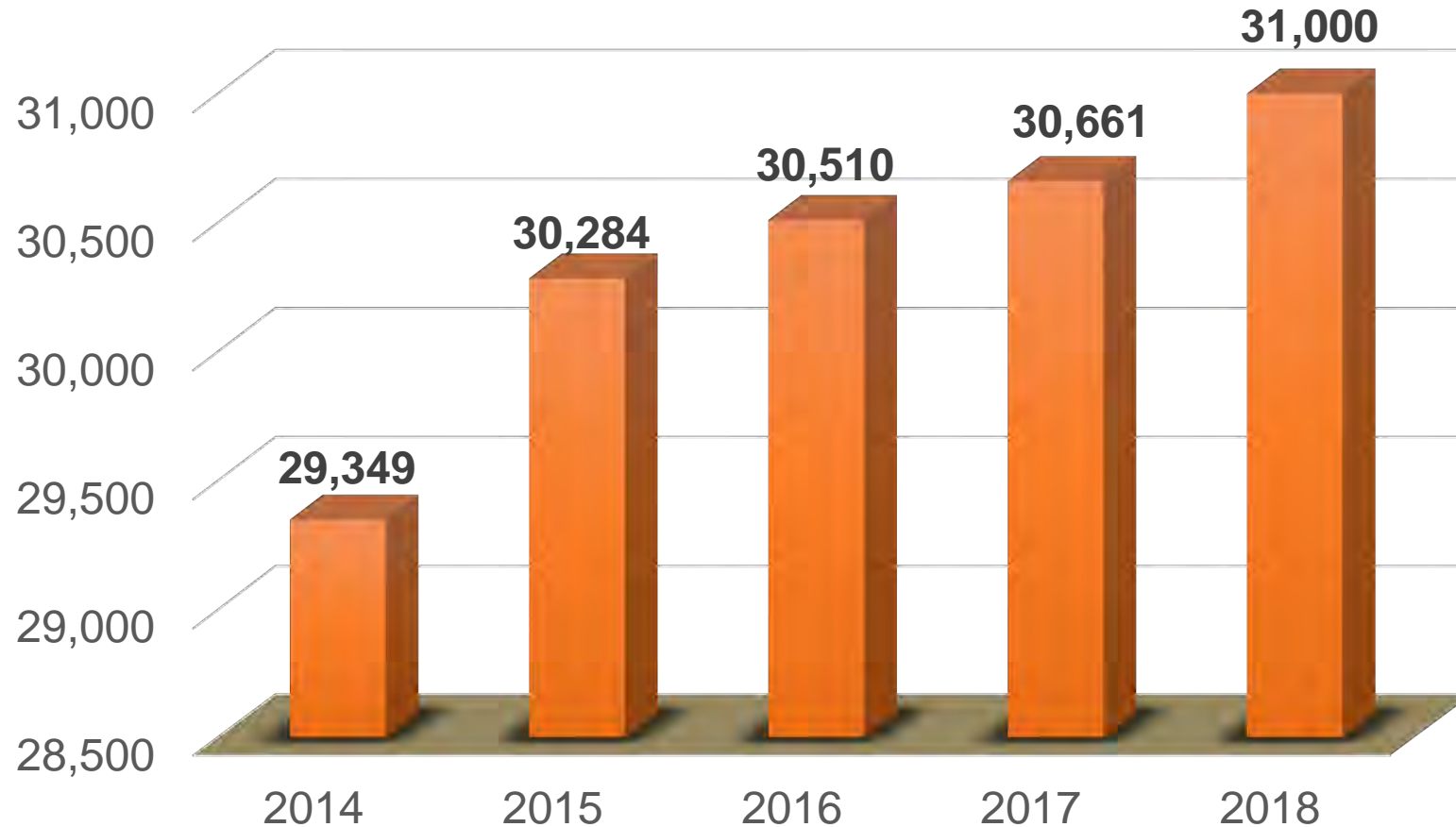
To increase and improve campus housing offerings to reinforce the University's mission to support student success, graduation initiatives, and serve students outside of the local area

Sacramento State

Existing Conditions

- ◆ Fall 2018: Record High Headcount Enrollment

**Sacramento State Headcount Enrollment,
Fall 2014 - Fall 2018**

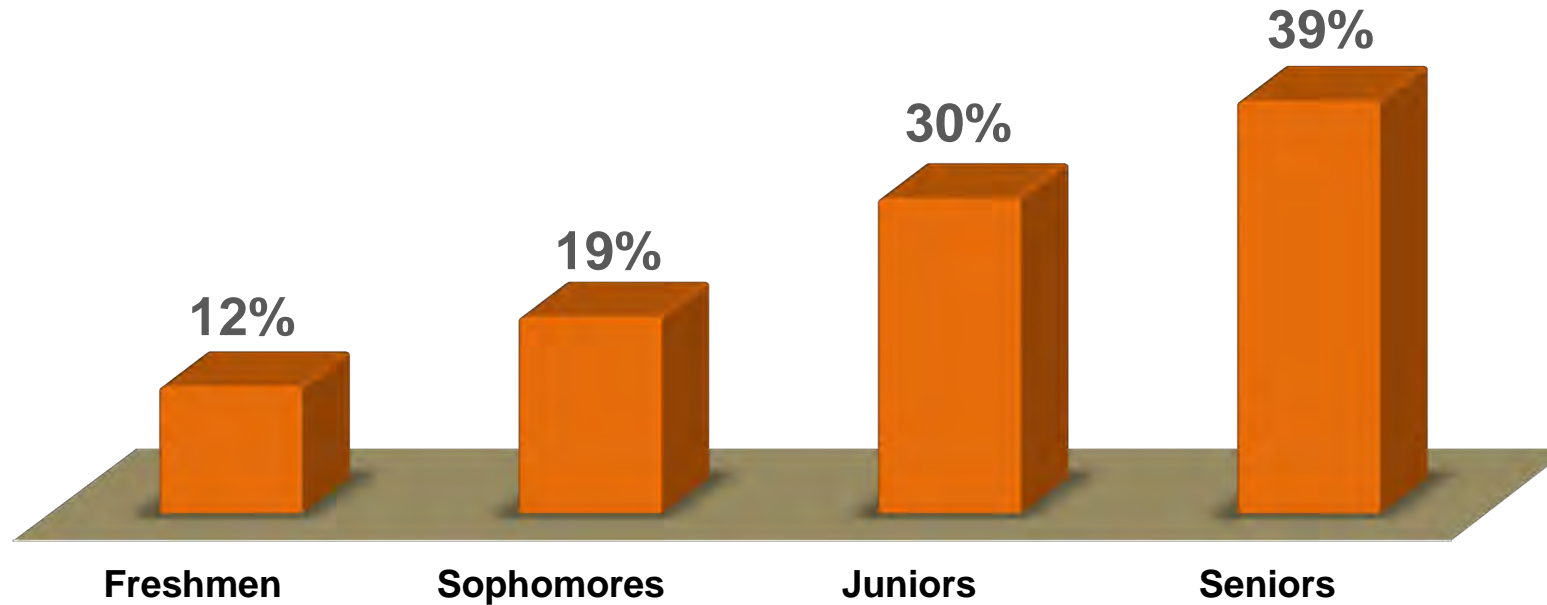


Sacramento State

Existing Conditions

- ◆ Fall 2017: Juniors & Seniors Comprise Nearly 70% of Enrollment

**Sacramento State Headcount Enrollment by Student Level
Fall 2017**



Sacramento State

On-Campus Inventory



Draper (1959) - 210 Beds
Traditional



Jenkins (1959) - 210 Beds
Traditional



Sutter (1974) - 198 Beds
Traditional



Sierra (1974) - 198 Beds
Traditional



Desmond (1990) - 250 Beds
Traditional & Semi-Suites



ARC (2009) - 606 Beds
Suites & Apartments (limited)

Sacramento State

Peer Benchmarks

Undergrad
Capture Rate

7%
*Sacramento
State*

12%
*Benchmark
Average*

University	Undergrad Enrollment	Housing Capacity	Undergrad Capture Rate
Sacramento State	27,876	2,077	7%
San Jose State University	26,432	3,500	13%
CSU, Chico	16,471	2,018	12%
CSU, Stanislaus	8,620	710	8%
CSU, Fullerton	34,462	1,965	6%
UC Davis	29,558	6,513	22%
San Diego State University	29,853	4,500	15%
CSU, Eastbay	13,340	1,442	11%
CSU, Fresno	21,502	1,100	5%
AVERAGE:		2,719	12%

The Opportunity

- ◆ 11-acre site owned by the City of Sacramento
 - Location at south campus entry
 - Used for recreational baseball
- ◆ UEI Lease-Purchase Agreement with the City
 - \$2.3 million total purchase price
 - Market Value: ~\$12 million
 - Possession contingent on relocation of existing ballfields
 - Replacement site provided by City
 - Upon completion, the ballfields will be operated by the City
 - UEI to receive title to 11-acre site upon completion of replacement ballfields



McAuliffe Ballfields Site



Replacement Ballfields Site

The Opportunity

Project Site Context



Campus Needs & Goals

University Goals:

- ◆ Evolve toward an increasingly residential campus
- ◆ Support academic success and graduation initiatives
- ◆ Bring upper division students physically closer to the academic resources of the campus

Project Goals:

- ◆ Ensure UEI's financial success within endeavor
- ◆ Balance revenue-generation and affordability for students
- ◆ Shared control and shared revenues—result of accessing outside capital for projects

Project Approach

Project Definition

- ◆ Planning Began in Winter 2017 to Develop Feasible Plans to Expand Housing
- ◆ B&D's Work Included:
 - Campus Outreach (Stakeholder Interviews, Student Focus Groups and Survey)
 - Off-Campus / Competitive Analyses
 - Concept Development
 - Financial Conceptualization
 - SRB vs. P3 Analysis: Evaluation of Financial Returns and Risks
 - P3 Rationale
- ◆ Recommended Concept: 1,050 apartment beds with retail
 - Demand for 1,259 beds
 - Estimated site capacity for 1,200 beds

Project Approach

Financial Conceptualization

Comparative Capital Investment and Returns

SRB STRUCTURE - CSU Investment Only

PROJECT METRICS	UNIV PARTNER
Net Investment (incl. Land)	\$ 171,200,000
Total Project Capture	\$ 1,400,953,000
	<i>as pct</i> 100%
NPV of total returns at 0.05	\$ 198,504,000

P3 EQUITY STRUCTURE - No University Investment

PROJECT METRICS	Investor	UEI
Net Investment (incl. Land)	\$ 154,332,000	\$ -
Cash Capture before Throw-off	\$ 243,953,000	\$ 10,000,000
Cash Throw-off Waterfall Spilt	\$ 636,517,000	\$ 563,772,000
Total Project Capture	\$ 880,470,000	\$ 573,772,000
	<i>as pct</i> 61%	39%
NPV of total returns at 0.05	\$ 210,534,000	\$ 46,160,000

Investment & NPV of Returns	SRB	P3 Equity
Net Investment (incl. Land)	\$ 171,200,000	\$ -
NPV of total returns at 0.05	\$ 198,504,000	\$ 46,160,000

Project Approach

P3 Rationale

Pursuing a P3 Equity Partnership allowed UEI to:

- ◆ Control and profit from land CSU does not currently own
- ◆ Maintain campus land for future Master Plan initiatives while adding 11+ acres to campus for significantly less than market cost
- ◆ Transfer project risks related to critical parcel
- ◆ Serve students by providing upper division housing sooner
- ◆ Do so without meaningfully impacting balance sheet or credit, allowing us to move forward with myriad of other initiatives

Project Approach

P3 Rationale: Transferring Risks

◆ Delivery Risk on Ballfields

- Transfer risk to Developer by forcing replacement fields to be built before access to student housing site

◆ Financial Exposure

- Developer could self-finance replacement fields, and utilize flexible draw down schedule to mitigate costs and exposure of capitalized interest

◆ Construction Cost-to-Quality

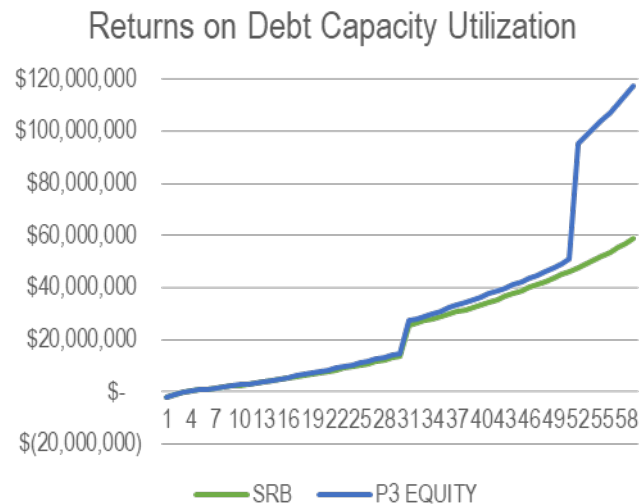
- Proposed construction cost efficiencies (wood frame, etc.) to combat current high hard costs are counterbalanced by market incentives to maintain occupancy over project life

Project Approach

P3 Rationale

◆ Use of Debt Capacity

- In using the Developer's credit and balance sheet, debt capacity for future critical projects are preserved, such as lower-division housing and other 2015 Master Plan initiatives



◆ Occupancy Risks of Upper Division Housing

- Less institutional control mechanisms for this market segment compared to lower-division students; Developer takes on long-term occupancy risk instead of campus

◆ Competitiveness with Off-Campus Market

- Transferring occupancy risk to Developer also provides platform in which our private sector partner would be incentivized to maintain consistent competitive offering in context of large, growing, and dynamic private off-campus student housing

Project Approach

Stakeholder Engagement

- ◆ Engage the Chancellor's Office
 - Capital Planning, Design and Construction
 - Financing, Treasury & Risk Management
 - Office of the General Counsel
- ◆ Initiate CEQA
- ◆ Coordination with the City of Sacramento
 - Ballfields Design
 - Plan Review and Approval
 - Building Permits
 - Construction Inspection Services

Project Approach

Solicitation and Partner Selection Process

Engaged Stakeholders from Multiple Entities:

- ◆ UEI
- ◆ Sac State
 - Housing and Residence Life
 - Student Affairs
 - Financial Services, Business Affairs
 - Administration & Business Affairs
 - Procurement
- ◆ CSU Chancellor's Office
 - Financing, Treasury & Risk Management
 - Capital Planning, Design and Construction

Project Approach

Solicitation and Selection

◆ Solicitation and Partner Selection Process

- RFQ

- Issued 6 October 2017
- Advertised through CSU Procurement and Distributed to Key Industry Entities
- Pre-Bid Conference with Site Tour
- 5 Teams Responded: Mix of Regional and National, Experience Levels
- 3 Teams Shortlisted

- RFP

- Issued 3 November 2017
- Pre and Post-Proposal Interviews
- Developer Team Work Sessions

- 12-Member Selection Committee Representing UEI, Sac State, and Chancellor's Office

Project Approach

Solicitation

RFP Key Factors:

- ◆ Upfront payment to be made to UEI upon execution of ground lease (~\$10.6 million)
 - Land Cost for 11-acre site: \$2.5 million
 - Ballfield Replacement Cost: \$5 million
 - UEI Costs: \$3 million
 - CEQA Cost Reimbursement: \$171,000
- ◆ Created Apples-to-Apples Comparison Across the Costs for the Ballfields
 - Used City's Replacement Cost in 2014
 - Underestimated by ~80% (\$4.3+ million)
 - UEI Replacement Cost Conducted
- ◆ Longer lease term granted to obtain higher ground rent to UEI

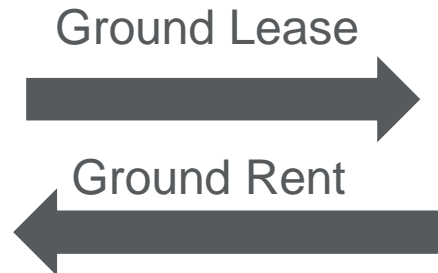
Project Approach

Solicitation and Selection Timeline

Request for Qualifications Issued	6 October 2017
Request for Qualifications Submission Deadline	27 October 2017
Short List of Developer Firms & Request for Proposals Issued	3 November 2017
First Round Interviews with Developers	15 November 2017
Request for Proposals Responses Due	3 January 2018
Second Round Interviews with Developers	24 January 2018
Negotiations with Developers, if necessary	Week of 5 February 2018
Preferred Developer Selected & Notified	Week of 12 February 2018

Project Approach

Partner Selection



UEI Will NOT Provide:

- ◆ Housing Project Financing
- ◆ Occupancy Guarantees or Master Lease
- ◆ Any Operational or Financial Support

Sac State Will:

- ◆ Market the Project
- ◆ Provide On-Campus Parking Permits (for a fee)
- ◆ Provide Security (for a fee)
- ◆ Enforce University Code of Conduct

Greystar Will:

- ◆ Provide 100% Equity
- ◆ Develop, Own & Manage Housing
- ◆ Fund Total Housing Development Cost
- ◆ Operate & Maintain Housing

Project Approach

Student Housing Project Program

Student Housing Program

Total Number of Beds	1,100
Studio	1%
2BD/2BA (Four-Persons)	22%
4BD/2BA (Four-Persons)	77%
Average Monthly Lease Rates (Fall 2021)	
Studio:	\$1,255
2BD/2BA (Four-Persons)	\$1,076
4BD/2BA (Four-Persons)	\$1,181
12-Month Leases	50%
Total Parking	~550 spaces
Retail Space	1,500 square feet

Project Approach

Project Rendering



Site aerial looking towards campus, showing central location of Amenity Building

Project Approach

Project Rendering



Project Approach

Project Rendering



Project Approach

Project Rendering



Project Approach

◆ Negotiation of Agreements

- Predevelopment Agreement: Replacement Ballfields & Housing
- Cooperation Agreement
- Ballfields Development Agreement
- Ground Lease

◆ CSU Approvals

CSU APPROVALS	2017												2018												2019		
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M
CSU Concept Approval (LDRC)			★																								
CSU Board of Trustees Concept Approval								★																			
CSU Housing Review Board (HPRC)																★											
CSU Capital Planning, Design and Construction																		★									
CSU Final Approval (LDRC)																			★								
CSU BOT Final Meeting for Finance Committee																										★	

Project Approach

Negotiation of Agreements

Predevelopment Agreements (PDA)

- ◆ Two PDAs executed prior to execution of the ground lease.
 - Stipulate expectations of the development team and UEI until financial close on the housing project.
- ◆ The PDAs' purpose is to:
 - Identify the scopes of the projects
 - Identify responsibilities of the Developer & UEI
 - Establish project timelines
 - Ballfields PDA valid until completion of construction
 - Housing PDA valid until ground lease becomes active
 - Establish relationship, contract expectations, and UEI and Developer protections
 - Define expected and acceptable costs of predevelopment activity, timeline, risk/exposure, ownership of material, and termination

Project Approach

Negotiation of Agreements

Predevelopment Agreements

- ◆ Predevelopment expenses include:
 - Upfront payment to UEI (~\$10.6 million reimbursed at financial close)
- ◆ Developer's direct expenses:
 - Architect and Design fees
 - Legal fees
 - Surveys, Geotech, etc.
- ◆ Developer's fee
- ◆ Developer's construction loan interest

Project Approach

Negotiation of Agreements

Cooperation Agreement

Key Negotiation Terms:

- ◆ Parties: Sac State, CSU Board of Trustees, UEI, Developer
- ◆ Term: Coterminous with Ground Lease
- ◆ Eligible Residents Waterfall
- ◆ Advisory Committee:
 - Representatives: 1 University; 1 UEI; and 2 Developer
 - Developer wins on rental rates, operating budget and capex needs; University wins on residence life and student conduct

Project Approach

Negotiation of Agreements

Ground Lease

Financial terms include:

STUDENT HOUSING PROJECT	
Financing	100% Equity
Ground Lease Term	85 Years
Unsubordinated Ground Rent	% of Gross Revenue
Upfront Ground Lease Payment	~10.6 million

Project Approach

Negotiation of Agreements

Ground Lease

Key Negotiation Terms:

- ◆ State Site
 - Critical for project parking
 - UEI to sublease to developer as part of ground lease
- ◆ Default
 - Termination Fee
- ◆ Taxes
 - Taxes during construction
 - Possessory interest tax

Project Approach

Timeline

Phase One: 5 Months

Project Definition
Financial Conceptualization

Phase Two: 4 Months

Solicitation & Partner Selection

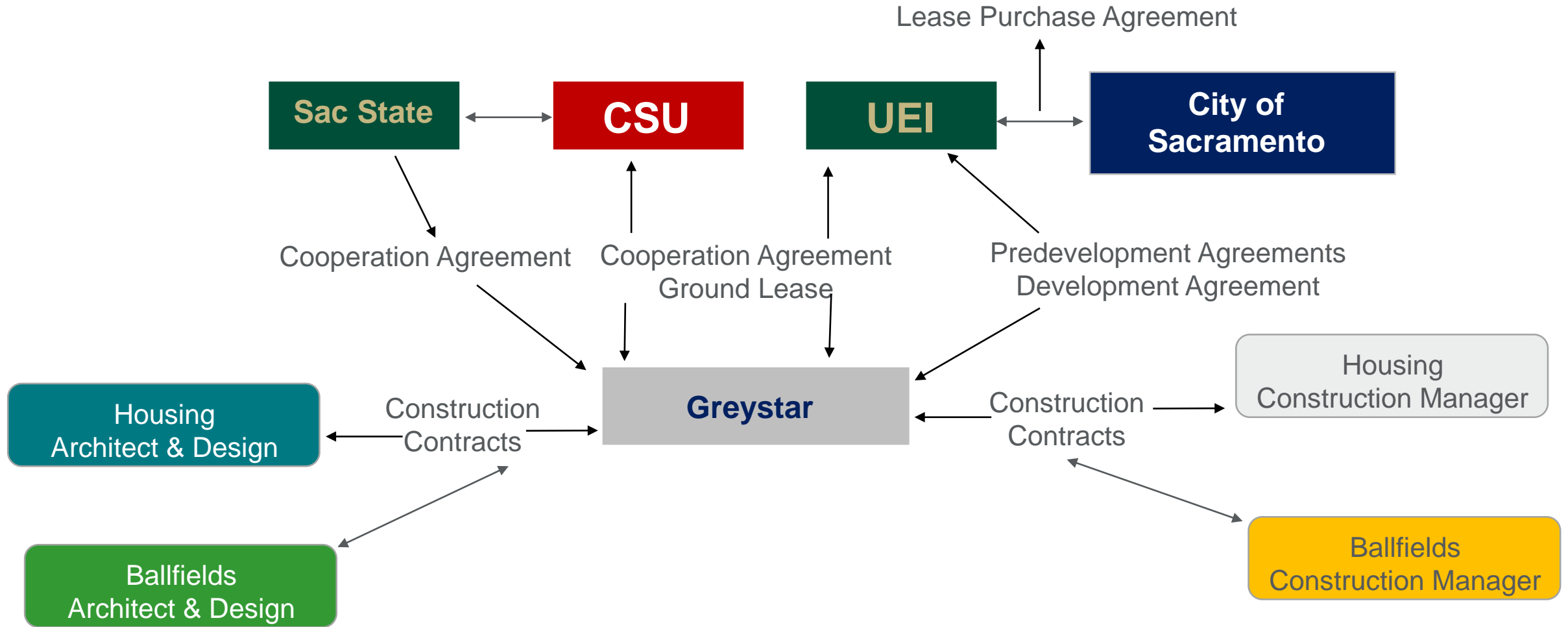
Phase Three: 11 Months

Negotiation of Agreements, CEQA
City of Sacramento & CSU Approvals
Design Oversight

Phase Four: 6 Months/24 Months

Implementation/Construction
Ballfields Construction: Spring 2019
Completion
Housing: Summer 2021 Opening

The Ps in P4



Lessons Learned

- ◆ Prepare for Schedule Changes
 - Board of Trustees Meeting Rescheduled--GMP
 - Waiting for the Grass to Grow
- ◆ Unanticipated Costs are Almost Guaranteed
- ◆ Taxes Can Sink Your Deal
- ◆ Complete Site Studies Prior to RFP
- ◆ Important to Maintain Originally Proposed Deal Terms
- ◆ Good Legal Counsel is Imperative
- ◆ A Strong Development Partner and Campus Support are Essential
- ◆ This is a Full-Time Job
 - Identify Internal & External Experts to Guide the Process

Questions